DEVELOPMENT OF UNDERUTILIZED FISH SPECIES

HEARING

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

DEVELOPMENT OF UNDERUTILIZED FISH SPECIES

FEBRUARY 15, 1982

Serial No. 97-104

Printed for the use of the
Committee on Commerce, Science, and Transportation

U.S. GOVERNMENT PRINTING OFFICE
92-404 O WASHINGTON : 1982

526141

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

BOB PACKWOOD, Oregon, *Chairman*

BARRY GOLDWATER, Arizona	HOWARD W. CANNON, Nevada
HARRISON H. SCHMITT, New Mexico	RUSSELL B. LONG, Louisiana
JOHN C. DANFORTH, Missouri	ERNEST F. HOLLINGS, South Carolina
NANCY LANDON KASSEBAUM, Kansas	DANIEL K. INOUYE, Hawaii
LARRY PRESSLER, South Dakota	WENDELL H. FORD, Kentucky
SLADE GORTON, Washington	DONALD W. RIEGLE, Jr., Michigan
TED STEVENS, Alaska	J. JAMES EXON, Nebraska
BOB KASTEN, Wisconsin	HOWELL HEFLIN, Alabama

WILLIAM M. DIEFENDERFER, *Chief Counsel*
GERALD J. KOVACH, *General Counsel*
ANNE GAVAGHAN, *Staff Director*
DENNIS PHELAN, *Professional Staff Member*
AUBREY L. SARVIS, *Minority Chief Counsel*
EDWIN K. HALL, *Minority General Counsel*
JAMES DREWRY, *Minority Professional Staff Member*

CONTENTS

Page

Opening statement by Senator Gorton 1

LIST OF WITNESSES

Alverson, Dr. Day, Chief of Staff, U.S. Delegation, United States/Canada Salmon Interception Negotiations; Maurice Clark of Merrill Lynch, White Weld Capital Markets Group; Clem Tillion, chairman, North Pacific Fishery Management Council; Jay Hastings, Japan Fisheries Association; and Raymond Swanson, vice president, Horizon Fish Co 40
Prepared statements of:
Dr. Alverson 42
Mr. Clark 49
Mr. Tillion 57
Mr. Hastings 60

Gordon, William, Department of Commerce, accompanied by Dr. William Aron, Gene Kruse, Robert McVey, and John Wedin 2
Prepared statement 9

Hemphill, Sara, Alaska Fisheries Development Foundation; and Pete Granger, executive director, West Coast Fisheries Development Foundation 12
Prepared statement of Ms. Hemphill 13
Prepared statement of Mr. Granger 21

Pedersen, Darryl K., president, Seawest Industries; Chuck Bundrant, president, Trident Seafoods Corp.; Bob Boroughs, marketing director, Swiftsure Fisheries; and Ronald Jensen, senior vice president and general manager of seafoods, Castle & Cooke 70
Prepared statement of Mr. Boroughs 77
Prepared statement of Mr. Jensen 81

Petersen, Ken, member, Highliners Association of Seattle; and Richard Goldsmith, executive director, North Pacific Fishing Vessel Owners' Association. 25
Prepared statement of Mr. Goldsmith 31

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

Pereyra, Dr. Walter T., vice president and general manager of Marine Resources Co., statement 95

Peterson, John G., president, Ocean Beauty Seafoods, statement 87

Wexler, James A., manager, Natural Resources Department, Economic Development Council of Puget Sound, statement 89

DEVELOPMENT OF UNDERUTILIZED FISH SPECIES

FEBRUARY 15, 1982

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION,
Seattle, Wash.

The committee met at 9:30 a.m., in the south auditorium, Federal Building, Hon. Slade Gorton, presiding.

OPENING STATEMENT BY SENATOR GORTON

Senator GORTON. I would like to call this hearing to order at this time. Thank you all for your participation in today's oversight hearing by the Committee on Commerce, Science, and Transportation on the development of underutilized species of fish.

I would like to express my appreciation to Senator Packwood for his help in bringing about today's hearing. I also want to welcome Congressman Joel Pritchard who is here with us today.

It is entirely appropriate that we spend today exploring the issues in the development of underutilized species of fish found along the Pacific coast and in Alaska. Today the American fishing industry, from catcher to processor to marketer, faces both tough challenges and resource of staggering proportions.

It has been estimated that 10 billion pounds of Alaska pollock are caught each year, with a landed value of over $1 billion. But only a small proportion of that is caught by American fishermen or processed by American processors.

With a resource of such value in our own Fishery Conservation Zone, and with American harvesters feeling the impact of devastatingly poor harvests of king crab, and with processors feeling the impact of the economic recession, we must turn our attention to what role, if any, Government should play in the development of this vast resource.

One important and obvious role Government can play in expansion of the American fishing industry is to insure that foreign countries, in return for allocations, aid in the development of our industry. Foreign nations can play such a role, and our Government should make certain that they do, by not erecting trade barriers to their markets, and by strictly adhering to fish and chips agreements.

I share the concern which many in the industry have voiced, that the agencies involved in fish and chips need to have a clear idea of the goals of that program, and that these agencies must

make certain that promises made in fish and chips agreements are kept.

Fish and chips can be a meaningful policy, but to be effective, it must be strictly enforced. One option which I have considered is to condition access on strict compliance with promises made. If foreign nations violate the agreements they have made to gain access to our Fishery Conservation Zone, then they should lose that access. I look forward to hearing your thoughts on this approach.

I deeply appreciate the willingness of each of today's witnesses to share with me and with the committee their knowledge and experience in this field.

I have read the written statements that were submitted in advance. Each of the written statements will be included in full in the hearing record. I will ask each witness to limit his or her oral presentation to 5 minutes as is the customary practice of the committee. The witnesses will be heard from in four panels. Following testimony by each of the panels, I may have questions to direct to individual witnesses in that panel.

And with that we will start with Mr. William Gordon from the Department of Commerce.

Please proceed, Mr. Gordon.

STATEMENT OF WILLIAM GORDON, DEPARTMENT OF COMMERCE, ACCOMPANIED BY DR. WILLIAM ARON, GENE KRUSE, ROBERT McVEY, AND JOHN WEDIN

Mr. GORDON. Thank you, Senator.

Senator Gorton and Congressman Pritchard, I am pleased to be here and to have the opportunity to testify on Government and industry efforts to develop those fisheries now underutilized by U.S. fishermen in the waters off Alaska and the Washington-Oregon-California coasts.

I would like to introduce members of my staff who are here from our Nothwest and Alaska Regional Offices and Northwest and Alaska Fisheries Center: Dr. Aron, Mr. Kruse, Mr. Wedin, and Mr. McVey. Some of their staffs are here as well to listen to what is said today and perhaps they will be able to respond to some of your questions.

I would like to describe some of the development activities in the National Marine Fisheries Service and offer suggestions on new approaches.

Since the administration is engaged in a critical review of all Federal programs directed toward business development, especially those based on direct grants and financial assistance, I believe we must examine the progress made to date and the development tools available in the immediate future.

So I hope the views that I will express today will create a useful context for a profitable exchange of ideas on development prospects by all of us here.

Certainly the advent of the 200-mile Fishery Conservation Zone in the spring of 1977 brought with it the control of the enormous resources off our coast. Since then the Fisheries Service has been actively involved in efforts to meet the Magnuson Act's basic devel-

opment goal, achievement of maximum economic value for the United States from these fishery resources.

Achievement of this goal will significantly contribute to the U.S. economy. The present U.S. commercial fishery catch by all U.S. harvesters is approximately 2.8 million metric tons. Foreign fishing vessels currently harvest about 1.7 metric tons from the Fishery Conservation Zone. Displacement of foreign fishing effort could produce a total domestic harvest of about 5 million metric tons.

If we take into account the increased processing, marketing, and distribution systems needed to offer these resources to consumers, we estimate that the net contribution to the gross national product of all domestic commercial fisheries, that is, total value added, would be about $5.5 billion.

A significant portion of the fishery resources available to domestic fishermen are found in the waters off Washington, Oregon, California, and Alaska, especially the latter. According to assessments completed in 1981, the potential Alaskan groundfish harvest is estimated at almost 2.6 million metric tons, more than half of which is Alaska pollock. The next two most abundant resources are flatfishes, 485,000 metric tons, the Pacific cod, almost 230,000 metric tons.

Domestic activity in these fisheries has increased sharply in the last 3 years despite the weak economy. The 1981 domestic catch of eight major groundfish species and species groups in Alaska and Washington-Oregon-California totaled 282,000 metric tons, nearly a threefold increase over the 101,000 metric tons harvested in 1979. The 1981 harvest was evenly distributed among five species groups, Alaska pollock, flatfish, Pacific whiting, rockfish, and herring, each one of which yielded at least a 40,000 metric ton harvest.

Joint ventures are an important factor in Government-industry efforts to harvest underutilized species, far greater than we anticipated in 1977.

Over-the-side sales arrangements with forign processors are a significant share of the recent increase in domestic harvesting activities in these fisheries. In 1981, for example, over-the-side sales from Alaska and the Washington-Oregon-California regions were almost 140,000 metric tons, or about half the total domestic harvest of bottom fish species.

In the Pacific whiting fishery, more than 80 percent of the total domestic harvest was sold to foreign processing vessels rather than landed at U.S. ports. We expect joint venture sales to continue to increase sharply, and we are therefore hopeful that the arrangements with the Soviet Union and Poland will proceed as scheduled in 1982, and that additional joint ventures will be established with other foreign fishing nations.

We expect Japanese fishing companies to be more active than in the past in over-the-side contracts with U.S. fishermen. However, we recognize that while these over-the-side joint ventures provide a short-term method for increased U.S. harvest of these species, the longer term question of achieving full economic value from these resources must involve our domestic processing industry.

We recognize that processors and exporters have thus far had a difficult time expanding their operations into underutilized species. To a large degree the recent economic problems and some serious

short-term export marketing impediments have frustrated spending and expansion plans. Erratic foreign markets and disadvantageous swings in currency exchange rates have prevented several exporters from gaining a solid foothold in export markets.

While current status of stock information indicates the potential for expansion in U.S. fishing activities in the northeastern Pacific and eastern Bering Sea, it must be recognized that the abundance of fishery resources in these two highly productive areas fluctuates.

In the eastern Bering Sea, for example, the Pacific cod abundance index increased from about 100,000 metric tons in 1975 to about 1 million metric tons in 1980.

Further, Alaskan pollock in the Gulf of Alaska increased forty-fold in the decade of the sixties. Abundance variations may be caused by uncontrollable changes that occur in the ocean environment, human activity or a combination of both.

The change in the abundance of pollock in the Gulf of Alaska is an example of a change that occurred in the absence of a directed fishery. Given the variable nature of the marine environment within which the U.S. groundfish fleet will operate, it is important that precise and timely stock data are available.

Available information from stock assessment and population analyses will help make it possible for fishermen to evaluate the economic feasibility of harvesting different species. These feasibility analyses will produce economically viable fishing plans which will contribute to the evolution of a healthy industry.

In addition to harvesting and investment decisions, stock abundance information is important to fishery managers. Imprecise data on the current status of fish stocks can lead to faulty management decisions. This is expecially true in a nonselective trawl fishery where fishermen have limited control over species caught resulting in the catch of both target and nontarget species. We expect that there will be a need to manage the harvest of nontarget traditional species like salmon and halibut as the domestic bottom fish fishery develops.

Stock assessment and population analyses are essential to the development of a viable U.S. groundfish fishery. Knowledge of stock abundance and dynamics is critical if we are to preserve our options for the future.

In the last few years we have learned a great deal about the impediments to developing commercially viable fisheries for underutilized species. These impediments are both short term, related to trends in the general economy, interest rates, and market growth, as well as long term, or structural, related to the special characteristics of the fishing industry. The latter includes such things as: (1) the fragmented organization of the industry, (2) insufficient processing capacity, especially in Alaska, (3) slow adoption of available technology, particularly in the handling and processing of underutilized species, and (4) inadequacies in the links in the production, processing, transportation and marketing chain, which we might sum up as weak infrastructure.

President Reagan's economic recovery program addresses the first set of impediments, while a cooperative effort between Government and industry should deal with the structural ones.

Finally, I am sure that most industry representatives in this room would agree that resource and marketing problems in traditional fisheries are a major impediment to developing underutilized species. This is because the industry needs a healthy and predictable revenue flow from established fisheries to finance the conversion and purchase of new equipment necessary to develop underutilized fisheries.

Although joint ventures provide an option for fishermen operating in resource-distressed fisheries, such as the Alaskan king crab fishery, we feel that in the longer term, domestic fishermen and processors working together will be in a better position to make investments necessary for the growth of fisheries for underutilized species.

As you know, a number of reductions have been proposed in the fiscal year 1983 NMFS budget which are consistent with the President's effort to reduce the size of Government and return the initiative to increase productivity and development to the private sector. The principal institutions to achieve our goal are in place and we intend to integrate our management and development programs. NMFS will continue to work with industry to achieve the maximum economic benefit from our fishery resources. We intend to deemphasize direct assistance in areas which are the proper responsibility of private industry and local authorities.

Thus, the administration is proposing to eliminate the Saltonstall-Kennedy grant program in fiscal year 1983, reduce inhouse development and utilization activities, and limit the size of the fishing vessel loan guarantee program for the construction and improvement of fishing vessels and shoreside facilities to $25 million.

Funds raised under Federal auspices in 1981 absorbed 43 percent of the capital raised in the nonfinancial sector of the U.S. credit market. As part of the Government-wide effort to reverse this trend and increase the amount of private credit available to business, the President has directed reductions in credit programs. The fishing industry will benefit more from the administration's effort to stabilize financial markets, reduce interest rates, eliminate burdensome regulations, and lower inflation than from direct Federal assistance.

We anticipate that the industry will continue to make progress in the areas of joint ventures and that we will also see improved results in domestic processing and foreign marketing of underutilized fish and shellfish.

On the domestic side, the catch America program, initiated in fiscal year 1981, has stimulated increased consumer acceptance of underutilized species. In fiscal year 1982, private industry will assume greater responsibility for the support and implementation of catch America activities which by fiscal year 1983 should be totally industry supported.

Fish and chips agreements have contributed to the increase of our exports to over $1 billion, almost three times greater than the 1977 level. These agreements are now showing results as foreign commitments to relax trace barriers are implemented.

We are working with the State Department to renegotiate the Governing International Fisheries Agreements, GIFA's, to include specific provisions linking foreign fishing and trade benefits. We

will continue to assist U.S. firms in their exporting efforts through organizing sales missions and industry participation in trade shows and by disseminating export marketing information.

Within this context, new ideas to develop these fisheries are emerging. The administration is rethinking its development policy. We think the industry is in a position to capitalize on the resource and we intend to create a climate to allow for it.

Industry, the councils, and other leaders, are looking for ways to increase domestic processing capacity and exclude foreign fishing from our shores altogether.

Foreign-built processing vessels have been purchased by U.S. firms to provide at-sea processing capacity. The full use of these vessels may require change in existing legislation to make this a more economical venture. This may include less stringent documentation laws for U.S. registered at-sea processing vessels.

The American Fisheries Promotion Act and other amendments to the Magnuson Act are designed to give the U.S. fisherman a better opportunity to displace the foreign harvester. The Fishery Management Councils are constantly alert to the needs of our domestic industry and seek to assure that such needs are fully accommodated under the requirement of the Magnuson Act. Attempts are being made to phase out foreign harvesters in the near future through the actions of Fishery Management Councils. For example, the Tanner Crab FMC was designed by the North Pacific Fishery Management Council to increase the harvest by U.S. fishermen by creating a favorable demand for the supply of that product to its principal foreign market. There is renewed interest in legislation to totally exclude foreign harvesters and allow foreign processing vessels access for a short period.

All of these ideas are being looked at by the Fisheries Service in an effort to allow the industry to capitalize on the resources managed by the United States as a result of the Magnuson Act. These measures, along with an integration of our development and management philosophies, will serve as the basis for a new development policy. As I have said before, the industry can develop these resources and the Government can serve in a catalytic role to help make it happen.

I hope that this forum and others can serve as a vehicle for an exchange of ideas that will allow the industry, the Congress and the administration to move forward together toward realization of the promise of the Magnuson Act, full utilization of our fishery resources by U.S. fishermen and processors.

Thank you, Mr. Chairman. I am prepared to respond to questions.

Senator GORTON. Bill, you spoke a lot about displacement of foreign harvesters. Is displacement of the foreign markets for U.S. fishery products just one side of the same seesaw? As we increase our foreign markets, will that automatically displace foreign harvesters? Is there a direct relationship?

Mr. GORDON. No, sir, not entirely. Much of our expansion presently has been in the high value species. The attempts to export low value species are more difficult and will take more time. The U.S. industry is often unfamiliar with the product form and the

quality and the standards that the foreign government imposes and it will take some time to learn these things.

Senator GORTON. You also spoke in your prepared remarks about budget reductions. Could you compare for me the tools you have available to you in 1982 to achieve full utilization as compared with what you will have in fiscal year 1983 if the President's budget recommendations are accepted?

Mr. GORDON. Presently we have approximately $8 million of the Saltonstall-Kennedy grant money available for disbursement to applicants who will vie for these moneys in our fisheries development grants program. We have a limitation of $50 million for fiscal years 1983 and $25 million for fiscal year 1984 in the obligation guarantee program, which will be phased out in 1984. In-house utilization and development activities which are currently funded at about the $8 million level would be reduced to a very low level in fiscal year 1983. We would continue the seafood quality and safety research work to support the industry as well, as our voluntary inspection program. Some of our habitat conservation research program would be phased down as would some of our ability to carry out timely assessment of stock structures and stock conditions.

The latter, I think, are the keystones to understanding and making wise decisions. Losses of some of the habitat conservation work, may not be detrimental in the short term but in the long run may have an irreversible impact.

Senator GORTON. Will this also have a serious impact on your ability to carry out the program?

Mr. GORDON. In my opinion they will.

Senator GORTON. What is the present status of your negotiations of existing governing international fisheries agreement?

Mr. GORDON. The Governing International Fisheries Agreement [GIFA] talks will resume with the Japanese next week. To renew a GIFA, which will expire in July, the Spanish Government will be in Washington in early March to resume those talks. It is questionable at this moment, given the political and military situation in Europe and in Asia, whether the agreements with the Polish and Soviets will be continued. This issue is under study by the administration. The Polish and Soviet GIFA's expire in the middle of 1982. We will phase out or renew the other GIFA's in time and all of these place more emphasis on trade, science, exchange of technical information, and carrying out our fish and chips policy with those governments.

Senator GORTON. Do you think that these negotiations will be successful?

Mr. GORDON. I think they will.

Senator GORTON. Will a policy of increased allocations to nations which accept increased exports of U.S. fishery products be continued?

Mr. GORDON. Yes, it will. We will look at their trade performance and other criteria such as enforcement cooperation in science, the exchange of technology when we make allocations decisions.

Senator GORTON. Do you think an increase in foreign allocations will enhance their participation in joint ventures?

Mr. GORDON. That is our intent. We want to make it pretty clear to those foreign businesses and governments who have been some-

what reluctant to engage in joint ventures, be they over-the-side sales or shore-side investments, that they should not wait until the end of the year with the hope that these allocations will be made available but that they must start early in the year. We will judge their performance on a quarterly basis and if they have not participated in a satisafactory project we will adjust our allocation recommendation accordingly and continue to monitor their performance.

Senator GORTON. Representative Pritchard.

Mr. PRITCHARD. First, let me just mention that I want to thank the Senator for holding this hearing and allowing me to sit in.

You people look so proper this morning, I commend you.

Where are we with the GIFA as far as the international situation is concerned? You say Poland and Russia put a cloud over that? How long is that cloud going to last? Do you have any way of knowing?

Mr. GORDON. I have no way of knowing. I suspect that if I had any way of looking into the minds of the Kremlin leaders, I wouldn't be sitting here today.

Mr. PRITCHARD. The question comes up, what are the fishermen, who are making plans or who have made plans, whether it's about financing or what have you, these decisions have to be made this week or next week, what are they going to do?

Mr. GORDON. The joint venture for the Polish and Soviet opearations, are, I believe, valid for the remainder of the present GIFA, that is until July. I would point out that the joint venture with the Soviets has been the most successful because they have purchased large amounts of fish taken by our fishermen. If we lose the Soviet joint venture, some fishermen may have to scramble fairly fast to find a replacement market. We're encouraging those people who are involved in this venture to try to work with other countries whose fishing industries are willing to purchase the fish which would otherwise be sold to Soviet and Polish processing vessels.,

Personally, I don't think this can happen in the near future. The countries and industries cannot gear up to bring vessels halfway around the world and learn the technology and consummate appropriate business relationships to replace the potential losses that we will have here, particularly as addressed to the Soviets.

In the case of Poland, there is a large firm in the United States which depends heavily on Polish production for their raw materials of fish blocks. That company is very concerned about future source of raw material. They may find some way of encouraging domestic participation in developing blocks in a shorter timeframe.

We are also working very closely with the industry and Government of Japan to encourage Japanese firms which are accustomed to operating in this area and use much of the product in their domestic market to become more aggressive and encourage their firms to engage in constructive business relationships with U.S. firms. They are moving in this direction in a way that is not entirely satisfactory, but at least they are contemplating a fairly aggressive move in this direction.

Mr. PRITCHARD. In other works, you're trying to take up the slack? Is there any chance of a new GIFA being an extension for our fishermen, at least through the rest of the season?

Mr. GORDON. I really can't answer that. We've had debates with the Department of State on this issue. We feel the losses that would be sustained by the U.S. fishermen are sufficient reason to continue with these arrangements solely for this purpose over a period of time. I'm not sure of the outcome of these discussions although I am hopeful and somewhat optimistic.

[The statement follows:]

STATEMENT OF WILLIAM G. GORDON, NATIONAL MARINE FISHERIES SERVICE, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

I would like to thank you for this opportunity to appear before the Committee to testify on Government and industry efforts to develop those fisheries now underutilized by U.S. fishermen in the waters off Alaska and Washington-Oregon-California (WOC). I will describe some of the development activities in the National Marine Fisheries Service (NMFS) and offer suggestions on new approaches. Since the Administration is engaged in a critical review of all Federal programs directed towards business development, especially those based on direct grants and financial assistance, we must examine the progress made to date and the development tools available in the immediate future. I hope my statement creates a useful context for a profitable exchange of views on development prospects by all of us here today so that we can move forward and cooperatively achieve the maximum benefit from our resources.

The advent of the 200-mile fishery conservative zone (FCZ) in the spring of 1977 brought with it the control of the enormous resources off our coasts. Since then, the Fisheries Service has been actively involved in efforts to meet the Magnuson Act's basic development goal, achievement of maximun economic value for the United States from these fishery resources. Achievement of this goal will significantly contribute to the U.S. economy. The present U.S. commercial fishery catch by all U.S. harvestors is approximately 2.8 million metric tons. Foreign fishing vessels currently harvest about 1.7 million metric tons from the FCZ. Displacement of foreign fishing effort could produce a total domestic harvest of about 5 million metric tons. If we take into account the increased processing, marketing, and distribution systems needed to offer these resources to consumers, we estimate that the net contribution to the GNP of all domestic commercial fisheries, that is, total value added, would be about $5.5 billion.

A significant portion of the fishery resources available to domestic fishermen are found in the waters off Washington, Oregon, California and Alaska, expecially the latter. According to assessments completed in 1981, the potential Alaskan groundfish harvest is estimated at almost 2.6 million metric tons, more than half of which is Alaska pollock. The next two most abundant resources are flatfishes (485,000 metric tons) and Pacific cod (almost 230,000 metric tons).

Domestic activity in these fisheries has increased sharply in the last 3 years despite the weak economy. The 1981 domestic catch of eight major groundfish species and species groups in Alaska and WOC totalled 282,000 metric tons, nearly a threefold increase over the 101,000 metric tons harvested in 1979. The 1981 harvest was evenly distributed among five species groups (Alaska pollock, flatfish, Pacific whiting, rockfish, and herring), each one of which yielded at least a 40,000 metric ton harvest.

Joint ventures are an important factor in Government-industry efforts to harvest underutilized species, far greater than we anticipated in 1977. Over-the-side sales arrangements with foreign processors are a significant share of the recent increase in domestic harvesting activity in these fisheries. In 1981, for example, over-the-side sales from Alaska and the WOC regions were almost 140,000 metric tons, or about half the total domestic harvest of bottomfish species. In the Pacific whiting fishery, more than 80 percent of the total domestic harvest was sold to foreign processing vessels rather than landed at U.S. ports. We expect joint venture sales to continue to increase sharply, and we are, therefore, hopeful that the arrangements with the Soviet Union and Poland will proceed as scheduled in 1982, and that additional joint ventures will be established with other foreign fishing nations. We expect Japanese fishing companies to be more active than in the past in over-the-side contracts with U.S. fishermen. However, we recognize that while these over-the-side joint ventures provide a short-term method for the increased U.S. harvest of these species, the longer term question of achieving full economic value from these resources must involve our domestic processing industry.

We recognize that processors and exporters have thus far had a difficult time expanding their operations into underutilized species. To a larger degree, the recent national economic problems and some serious short-term marketing impediments have frustrated spending and expansion plans. Erratic foreign markets and disadvantageous swings in currency exchange rates have prevented several exporters from gaining a solid foothold in export markets.

While current status of stock information indicates the potential for expansion in U.S. fishing activities in the northeastern Pacific and eastern Bering Sea, it must be recognized that the abundance of fishery resources in these two highly productive areas fluctuates. In the eastern Bering Sea, for example, the Pacific cod abundance index increased from about 100,000 metric tons in 1975 to about 1 million metric tons in 1980. Further, Alaska pollock in the Gulf of Alaska increased 40 fold in the decade of the 1960's. Abundance variations may be caused by uncontrollable changes that occur in the ocean environment, human activity or a combination of both. The change in the abundance of pollock in the Gulf of Alaska is an example of a change that occurred in the absence of a directed fishery. Given the variable nature of the marine environment within which the U.S. groundfish fleet will operate, it is important that precise and timely stock data are available. Available information from stock assessment and population analyses will help make it possible for fishermen to evaluate the economic feasibility of harvesting different species. These feasibility analyses will produce economically viable fishing plans which will contribute to the evolution of a healthy industry.

In addition to harvesting and investment decisions, stock abundance information is important to fishery managers. Imprecise data on the current status of fish stocks can lead to faulty management decisions. This is especially true in a non-selective trawl fishery where fishermen have limited control over species caught resulting in the catch of both target and non-target species. We expect that there will be a need to manage the harvest of non-target traditional species like salmon and halibut as the domestic bottomfish fishery develops.

Stock assessment and population analyses are essential to the development of a viable U.S. groundfish fishery. Knowledge of stock abundance and dynamics is critical if we are to preserve our options for the future.

In the last few years, we have learned a great deal about the impediments to developing commercially viable fisheries for underutilized species. These impediments are both short-term, related to trends in the general economy, interest rates, and market growth, as well as long-term, or structural, related to the special characteristics of the fishing industry. The latter includes such things as (1) the fragmented organization of the industry, (2) insufficient processing capacity, especially in Alaska, (3) slow adaption of available technology, particularly in the handling and processing of underutilized species, and (4) inadequacies in the links in the production, processing, transportation and marketing chain, which we might sum up as "weak infrastructure." President Reagan's Economic Recovery Program addresses the first set of impediments, while a cooperative effort between the Government and industry should deal with the structural ones. Finally, I am sure that most industry representatives in this room would agree that resource and marketing problems in traditional fisheries are a major impediment to developing underutilized species. This is because the industry needs a healthy and predictable revenue flow from established fisheries to finance the conversion and purchase of new equipment necessary to develop underutilized fisheries. Although joint ventures provide an option for fishermen operating in resource-distressed fisheries, such as the Alaska king crab fishery, we feel that in the longer term domestic fishermen and processors working together will be in a better position to make investments necessary for the growth of fisheries for underutilized species.

As you know, a number of reductions have been proposed in the FY 1983 NMFS budget which are consistent with the President's effort to reduce the size of Government and return the initiative to increase productivity and development to the private sector. The principal institutions to achieve our goal are in place and we intend to integrate our management and development programs. NMFS will continue to work with industry to achieve the maximum economic benefit from our fishery resources. We intend to de-emphasize direct assistance in areas which are the proper responsibility of private industry and local authorities. Thus, the Administration is proposing to eliminate the S-K Grant Program in fiscal year 1983, reduce in-house development and utilization activities and limit the size of the fishing vessel loan guarantee program for the construction and improvement of fishing vessels and shore-side facilities to $25 million.

Funds raised under Federal auspices in 1981 absorbed 43 percent of the capital raised in the non-financial sector of the U.S. credit market. As part of the Govern-

ment-wide effort to reverse this trend and increase the amount of private credit available to business, the President has directed reductions in credit programs. The fishing industry will benefit more from the Administration's effort to stabilize financial markets, reduce interest rates, eliminate burdensome regulations, and lower inflation than from direct Federal assistance.

We anticipate that the industry will continue to make progress in the area of joint ventures and that we will also see improved results in domestic processing and foreign marketing of underutilized fish and shellfish. On the domestic side, the "Catch America" program, initiated in fiscal year 1981, has stimulated increased consumer acceptance of under-utilized species. In fiscal year 1982, private industry will assume greater responsibility for the support and implementation of "Catch America" activities which by fiscal year 1983 should be totally industry supported. "Fish and Chips" agreements have contributed to the increase of our exports to over $1 billion, almost 3 times greater than the 1977 level. These agreements are now showing results as foreign commitments to relax trade barriers are implemented. We are working with the State Department to renegotiate the Governing International Fisheries Agreements (GIFAs), to include specific provisions linking foreign fishing and trade benefits.

We will continue to assist U.S. firms in their exporting efforts through organizing sales missions and industry participation in trade shows, and by disseminating export marketing information.

Within this context, new ideas to develop these fisheries are emerging. The Administration is rethinking its development policy. We think the industry is in a position to capitalize on the resource and we intend to create a climate to allow for it.

Industry, the Councils, and other leaders are looking for ways to increase domestic processing capacity and exclude foreign fishing from our shores altogether. Foreign-built processing vessels have been purchased by U.S. firms to provide at-sea processing capacity. The full use of these vessels may require changes in existing legislation to make this a more economical venture. This may include less stringent documentation laws for U.S. registered at-sea processing vessels.

The American Fisheries Promotion Act and other amendments to the Magnuson Act are designed to give the U.S. fishermen a better opportunity to displace the foreign harvester. The Fishery Management Councils are constantly alert to the needs of our domestic industry and seek to assure that such needs are fully accommodated under the requirements of the Magnuson Act. There are attempts being made to phase out foreign harvesters in the near furture through the actions of Fishery Management Councils. For example, the Tanner Crab FMP was designed by the North Pacific Fishery Management Council to increase the harvest by U.S. fishermen by creating a favorable demand for the supply of that product to its principal foreign market. There is renewed interest in legislation to totally exclude foreign harvesters and allow foreign processing vessels access for a short period.

All of these ideas are being looked at by the Fisheries Service in an effort to allow the industry to capitalize on the resources managed by the United States as a result of the Magnuson Act. These measures, along with an integration of our development and management philosophies, will serve as the basis for a new development policy. As I've said before, the industry can develop these resources and the Government can serve in a catalytic role to help make it happen. I hope that this forum and others can serve as a vehicle for an exchange of ideas that will allow the industry, the Congress, and the Administration to move forward together toward realization of the promise of the Magnuson Act, full utilization of fishery resources by U.S. fishermen and processors.

Senator GORTON. Thank you very much, Mr. Gordon, for coming and for the information you have provided to us.

Our first panel will consist of Sara Hemphill and Pete Granger.

Mr. Gordon, would you please remain for the balance of the morning?

Mr. GORDON. Yes.

Senator GORTON. Please proceed.

STATEMENTS OF SARA HEMPHILL, ALASKA FISHERIES DEVELOPMENT FOUNDATION; AND PETE GRANGER, EXECUTIVE DIRECTOR, WEST COAST FISHERIES DEVELOPMENT FOUNDATION

Ms. HEMPHILL. Thank you. Good morning, Mr. Chairman and Mr. Pritchard.

On behalf of the Alaska Fisheries Development Foundation, I wish to thank you for the opportunity to comment here today. As the director of an organization that has been dedicated for the last 4 years to the development of fisheries off Alaska, it is my impression that the industry is actually somewhat closer to achieving its goal of total domestic utilization of our fisheries resources than it was 5 years ago.

That is not to say that there isn't a lot of work left to do. As a matter of fact, when I get asked the question, "What is a woman like you doing in a business like this?" My standard reponse is "job security."

Seriously, the industry has confirmed through many studies undertaken in the last few years, something that we've all suspected. That is that the underutilized resource off Alaska is really the only opportunity for substantial growth and development of this fishery industry. Moreover, development of the resources is critical to the stability of the industry because it is the only way it is going to be able to rest control of this industry from the foreigners and it is the only solution we have to stabilize the peaks and valleys in our operations.

As you are well aware, we have a very quite winter fishery season and a very active summer fishery. Needless to say, this is not cost effective.

I have pointed out in my written remarks many of the impediments that confront the industry are the commonplace development of the cod, pollock and flatfish fisheries off Alaska and I have urged that special federally supported programs be not only continued but in some cases expanded and that special consideration be given to operations in Alaska when policies are adopted and regulations promulgated.

In fact, the development of many other U.S. industries are inhibited by the same or similar impediments. To mention a few, the high cost of money, the increasing cost of fuel, burdensome regulations, difficulty in assessing foreign markets and competition in the world arena with heavily subsidized industries. So why should fisheries get any special attention, why should they get any special treatment? This is a tough question and one I spent some time thinking about.

I think I would have to start off in responding to that question with a statement that of course we are dealing with a protein resource and a resource that needs to be not only developed but managed wisely and carefully if it's going to continue to be available to us.

Second, fisheries constitute one of our larger deficits. Domestic development of the resource off Alaska alone would make a significant difference in this trade deficit.

Third, the individual businesses which make up the Pacific Northwest fishing industry are relatively small when compared to other U.S. industries. They are not businesses that have large research and development departments or for that matter in most cases any research developments at all.

Most importantly, and something that sometimes gets forgotten is that we are dealing here with an unpredictable, fragile and common property resoruce. We know very little about the resource. We know little about the traditional developed fisheries and we know even less about the developing and underutilized fisheries.

The foundation, the Alaska Foundation, that is, has focused its energies on encouraging the transfer of technology and the adaptation of existing vessels and plants, so that these vessels and plants can handle underutilized species. We have operated for the most part with Saltonstall-Kennedy rules. The program in Alaska is I believe successful today, Saltonstall-Kennedy dollars we are working with and in connection with industry money and energy to do many things. A few of them are for adapting existing Norwegian technology and equipment to fit with not only Alaska fishermen but Alaska fish.

We are developing new product forms to take the scraps of processed groundfish which are currently thrown overboard and wasted and we are working to develop a product which can then be marketed here in the United States. This again is going toward our goal of total utilization.

We are monitoring the setting up of a shore-based processing plant in western Alaska. This plant will handle groundfish in addition to crab and salmon. We are moving slowly and carefully as the economics of the situation doesn't yet merit jumping into it with both feet.

We are developing and working with several programs developing holding processes for fish to reduce the cost and to insure a quality product gets to the dock. We are, in conjunction with the Alaskan Seafood Marketing Institute, conducting market research and some promotion for underutilized species, in particular sablefish at this time, here in the United States and abroad.

These programs and ones that will grow out of them will expedite maturation of the fishing industry. Currently the industry is in a survivor mode in experimenting with fisheries that can't to date be economic without substantial outside support. This is certainly not advised and probably not possible.

The Saltonstall-Kennedy program addresses one of the impediments that I mentioned in my written remarks; that is research. I urge you and the committee to support the continuation of the research program.

Thank you and I would be happy to answer any questions.

[The statement follows:]

STATEMENT OF SARA S. HEMPHILL, EXECUTIVE DIRECTOR, ALASKA FISHERIES DEVELOPMENT FOUNDATION

Mr. Chairman, I am Sara S. Hemphill, Executive Director of Alaska Fisheries Development Fondation (AFDF). I appreciate the opportunity to comment on the development of domestically underutilized fisheries and in particular, the vast groundfish resource off Alaska.

Let me begin by stating that I am an optimist and believe that in the foreseeable future the U.S. industry will gain control of this fabulous resource, 80 percent of which is currently harvested by foreigners. If the effort to develop these fishery resources is a truly cooperative one between government and industry, we will meet our goals far more readily and with fewer mishaps than if industry is left to struggle on its own.

Various sectors of the industry approach the evaluation of the department effort in the Bering Sea and Gulf of Alaska from different vantage points. Because the immediate interests and concerns differ between small and large boat owners, Alaska-based and Seattle-based operations, small and large volume processors, foreign-owned and domestic-owned operations, and native and non-native interests often they are, or appear to be, incompatible. The Alaska Fisheries Development Foundation represents and works on behalf of each of these sectors. Because it is the only organization in Alaska primarily dedicated to the task of encouraging domestic development of this underutilized resource, I often find myself in the awkward position of representing seemingly contrary interests.

However, on one issue all the various components of the industry agree: the ultimate goal is U.S. industry control over the vast Alaskan groundfish resource both from a management and a production/marketing perspective.

I will not address the management issue here except to state that in Alaska today we have a unique opportunity to coordinate development and management. We have an opportunity to do the whole job right. The existence of the American Fisheries Promotion Act attests to the fact that management alone is not the solution. We cannot achieve economic viability for this industry and total U.S. utilization of the resource in the foreseeable future, unless development efforts are coordinated with management activities. For example, cutting back on the Japanese allocation of pollock is not, by itself, going to insure that Japan will buy U.S. pollock; if for no other reason than that there is almost none available.

The Foundation has concentrated its attention on the harvesting and processing components of this development challenge. Unlike the other Foundations, AFDF has not stressed marketing of underutilized species. There was good reason for this.

Before the industry in Alaska can fully and effectively develop markets for domestically produced pollock, cod and other underutilized species, it must develop the capacity to produce a quality product on a consistent basis at a competitive world market price. The myriad of impediments associated with is development challenge have almost totally overwhelmed the industry. Recently we have seen a steadily increasing interest and involvement on the part of some industry members in groundfish.

The Administration has indicated that it intends to eliminate in 1983 its financial and research support for the industry's development activities. I think this would be a serious mistake.

Ultimately, research and development will be an activity largely supported by industry. In the meantime, the industry development efforts must be supported with a favorable financial/investment climate, reduced government regulation, consistent and supportive trade promotion, responsive and predictable management, adequate support systems, and improved data and statistics on the resource. The transition period in which the industry finds itself today is costly for all concerned. Fishermen need financing for gear purchases, for technical assistance in the installation and use of this gear and some indication that there will be enough profit to allow them to give up a known source of income and still make their boat payments. Processors have very heavy capital construction costs with equipment purchases and plant revision, not to mention training of workers on the new machines and the prospecting of new markets and new product forms. The uncertainty and risks and thus the cost increases geometrically when one contemplates all of the hurdles that must vaulted before the U.S. industry is competitive in the world arena.

Preoccupied with the pressing day to day tsks of making a living from a variable and declining resource and in competition with subsidized foreign operations, the individual industry members can ill-afford the luxury of conducting research and experiments. The fragmented character of the industry inhibits communication between the sectors and even between individual members. This results in unnecessary duplication of effort as each invents the wheel. The Foundation is dedicated to coordinating the individual, diverse efforts and thus expediting change and growth. The Foundation's role has been to consult with industry members to identify the impediments to development, to then work with industry members to develop a possible solution to a specific problem, to fund and oversee the implementing of that solution and to evaluate and report on this activity to the industry at large. While

the challenge is awesome and the task often frustrating, there is, I believe, room for optimism. The development effort is moving forward, albeit slowly.

Briefly I would like to highlight some of the events and activities that have occurred over the past five years to illustrate where we've been:

Harvesting activities

Dramatically increased domestic landings of groundfish which in large part are a function of over-the-side joint venture activity. Landings in metric tons are roughly: 1978, 4,500; 1979, 6,300; 1980, 30,000; and 1981, 130,000.

The development and trial of a new breed of vessels such as the American No. 1, The Arctic Trawler, the Storm Petrel, the Excalibur, and the Aleutian Mistress. Each vessel is designed to address different needs.

The adaptation of automated longline harvesting gear to Alaskan fishing technique and psyche.

Numerous conversions of crab vessels to combination crab and groundfish vessels in anticipation of the decreased availability of the crab resource and need to diversify operations.

Revival of salt cod operations in Western Alaska with product exported to Norway for drying and distribution. It should be noted that this effort was initiated by foreigners who saw an opportunity. They have formed a partnership with a U.S. firm and are constructing a shoreside plant.

The West German vessel—Friedrich Busse fished off of Alaska in 1980 and 1981 targeting pollock. Pollock has been successfully marketed in France as a premium quality product of the West German firm Nordstern.

Scattered small boat, near-shore groundfish activity. The fish has been sold fresh to local markets on a catch as catch can basis.

Expanded joint venture activities with continued increasing success now that the process is more familiar. This activity is still plagued by the fact that its continuation threatens the stability and strength of the shore based U.S. processing sector. It is imperative that the domestic processing component be involved in these joint venture operations.

An agreement from Japan to open up markets for herring and EEC action not to place a reference price on the sale of Pacific salmon to Community members.

The building of a 20 million dollar dock in Dutch Harbor by American President Lines in anticipation of groundfish development.

With the exception of the salt cod, the smaller boat near shore fisheries, and the APL dock all of the above activities have been supported by federal funding or federal policy. Fish and Chips diplomacy has played a significant role in the increased interest on the part of foreigners in joint ventures and is clearly responsible for whatever headway we have made in toppling trade barriers.

Processing activities

Three shore-based processing plants attempted groundfish processing in Alaska, each on a relatively large scale. Today none can be considered successful; only one is currently in operation.

The Arctic Trawler, the only world class U.S. catcher/processor, has successfully produced top quality cod and pollock products at sea. Much work is scheduled to be done to increase overall product yields and thus hopefully ensure economic viability of the operation.

The several salt cod harvesting operations, predominately in western Alaska require minimal processing in the United States. It should be noted that even in the new plant in Dutch Harbor the drying process (that which adds the greatest value) will still be done in Norway.

A privately held domestic company is building a new facility at Akutan. Included in the plans is a groundfish operation. Rather than tackle large scale production immediately this company plans to move gradually into processing cod and pollock.

Another domestic company that catches and preliminarily processes cod at sea with a 120-foot converted crab boat, then ships the product to Bellingham, Washington for final processing and marketing.

Several plants have begun to plan for groundfish production but have not been able to follow through because without more data the planning process comes to a halt.

Much work needs to be done. While none of these ongoing operations has proved to be a financial success, the companies continue to explore and experiment. Each is involved in a federally supported research and development program through the Foundation and thus can afford to continue its development efforts.

And so, we have progressed along the learning curve over the past four years. As I noted earlier, the pace is slow and halting, though I would observe that it is begin-

ning to pick up some speed. Moving the domestic industry into a successful world class venture will take time and will require coordination, two commodities the government is capable of providing. There are many impediments which must be overcome. I have divided these issues into the following six categories:

IMPEDIMENTS TO DEVELOPMENT

Foreign competition

The domestic processor and fisherman must compete in the world market place with heavily subsidized foreign operations. The foreign fishing industries are subsidized in many ways such as fuel, construction costs, relatively inexpensive labor, cheap money, and marketing support activities.

Also, despite protestations to the contrary by foreign industry and governments, many foreign markets are closed to U.S. produced product. Trade barriers exist in many forms in addition to tariffs such as, labeling and packaging requirements, accessibility to brokers and distribution systems and financing opportunities. These subsidies and support systems have contributed significantly to the ability of the foreign operation to control world market price and thus this fishery resource.

The U.S. industry cannot compete against such odds without support from the federal government. Fish and Chips Diplomacy has been tremendously successful; it needs to be maintained and strengthened. It is critical that the U.S. position with respect to trade, be consistent and steadfast and that it support and encourage total U.S. utilization of the fishery resource in the U.S. fishery economic zone.

Capacity to consistently harvest and process a premium quality product at a competitive price

Foreign technology and expertise is not necessarily directly applicable to the Alaska situation. It usually requires adaptation. For example, Pacific cod tend to have larger heads and thicker collar bones than Atlantic cod and Pacific pollock are shaped differently from the Blue Whiting. The existing machinery created for these other species doesn't work efficiently on Alaskan stocks. The required adjustments are best accomplished through a hands-on trial and error approach; this takes time. This is time that the industry, if left on its own, can ill-afford. State of the art holding and handling systems and processes as well as some specialized filleting equipment need development and modification to guarantee efficiency and a quality product, especially when dealing with the huge volumes of fish that are the rule in Alaska.

Logistical problems and inadequate support systems

To add insult to injury, numerous logistical problems plague the industry as a result of operating in a remote area. These problems include: Lack of adequate airports; imminent oil and gas development that will further stress limited utilities and facilities; virtual absence of repair facilities in the state; inadequate or non-existent docking and cold storage capacity; distance from markets and distribution centers; limited utilities and labor; adverse weather conditions; and limited transportation and communication systems.

Associated with each logistic factor is a cost, which further adds to the problem of competing with established subsidized operations. The fishing industry is in a survival mode due fuel and short-term money costs, not to mention a declining or no growth resource and an increased number of vessels both foreign and domestic. This industry is dependent for its survival upon a cyclical, unpredictable common property resource. Each fishing day must be productive and profitable. Because most companies involved in this industry are relatively small they cannot afford to underwrite research and development programs, despite declining profits in the traditional fisheries. Consequently, opportunities are bypassed for lack of money or time to pursue them.

Total utilization of the catch is critical to the economic success of these developing fisheries. Today the processing industry captures between 20 and 40 percent of the landed weight, the remainder is thrown away. Heretofore, the unit price of the end by-product was so low and the cost of recovery so high, that it was out of the question to consider production of fishmeal or other by-products from this waste. However, shrinking profit margins alter this picture somewhat. Developing this capacity from ground zero will be costly.

Financing

Growth and development requires capital. Certainty on any given issue in this industry is elusive. Historically, the financial community has not enthusiastically supported the traditional fisheries, much less the developing fisheries. Even the cre-

ation of a bank focused on the agriculture and fishing industries of Alaska, has not resulted in easy money. But, this situation is to be expected given the unpredictable nature of a living, mobile, fragile, common-property resource. Until the industry stabilizes, this financial climate cannot be expected to change. Without accessible, reasonably priced money, the industry cannot be expected to stabilize in the near future. In years past the domestic industry turned to foreign markets for its financing. That relationship has in many instances proved troublesome; some blame it for the lack of domestic groundfish development.

Different industry sectors take different positions on the financing issue. From my perspective as Executive Director of the Foundation I urge that Congress once again reject the Administration's ceiling for the federally guaranteed funds to be used for vessel conversions to target underutilized species and for construction of shore side processing operations. I would even go so far as to recommend that guarantee funds be available to build new vessels designed to address the evolving needs of the industry. Combination crab vessels are quickly going to be become inefficient and, given the handicap this industry works under as a result of the Jones Act, it will need support if it is to be competitive. Furthermore, the Administration must be urged to expedite the promulgation of regulations to extend the obligation guarantee funding program to shore-side processing operations. Other measures such as tax incentives, and investment opportunities tend to encourage risk taking should be implemented. Without these programs in place, the development is stymied.

Information on the resource and its properties

Compared to animal husbandry, farming, timber and minerals, relatively little is known about our fishery resources. This is true not only for the underutilized species but also for the developed fisheries. (note: Weyerhaeuser's investments in salmon ranching). This lack of data, and information inhibits the ability of the industry to plan and thus blocks development.

The lack of data on the feeding ecology, migratory behavior, seasonal availability and quality characteristics, and population recruitment rates of the fisheries confounds the entrepreneur not to mention the banker, and raises the risk component and thus the cost of entering a new fishery. The information is difficult and costly to compile and analyze. It often appears in a format that is useful to only a limited segment of the industry. A cooperative effort between management and development operations would maximize the usefulness and minimize the cost of gathering and analyzing the data. This information is as critical to good management as it is to development.

Political and legislative support

Historically, the Administration has thwarted whatever action Congress has taken to support the fishing industry by simply not funding the activity or not promulgating regulations. The situation today, with the threat of elimination of federal support in 1983, the imposed ceiling on the obligation guarantee program, the lack of regulations for extension of guarantee monies to shore side operations a full year from the signing of the legislation into law, cutbacks in the observer programs and in the Coast Guard budget belies the "Major Departmental Goals" stated in a memorandum circulated by Secretary Baldrige last September. These stated goals emphasize the development of the U.S. fishery resources.

Increase America's Competitiveness in the World Economy: Establish trade expansion as a major national priority; eliminate the merchandise trade and travel deficits and increase exports to 10 percent of GNP by 1990; and provide accurate and timely information and services to U.S. exporters.

Stimulate Economic Recovery and Growth: Promote private sector capital formation, job creation, and productivity; minimize regulatory and administrative barriers to business growth profitability, trade, and competitiveness; produce economic forecasts and industry analyses that are useful to business; provide technological information, products and services to meet the major long-term needs of U.S. industry; double the contribution of minority business to GNP by 1990; and reduce patent pendency to 18 months by 1987 and improve patent quality.

Manage Effectively the Oceanic and Atmospheric Resources of the United States: Promote new commercial uses of marine resources by U.S. industry; increase the domestic fisheries catch by one-third by 1990; and restructure the national weather system by 1990 to provide more timely and accurate forecasts with improved cost-effectiveness.

Improve Service Delivery and Internal Management: Upgrade the Department's technical and organizational capabilities to improve services at reduced costs, and develop the best internal management system in the Federal Government by 1985.

The wise management of the fishery resource so critical to its continuing viability, simply will not occur if we are unable to enforce our management plans. Certainly, it will not occur if we cannot develop them! The majority of foreign vessels fishing in the U.S. Fishery Conservation Zone operate off the coast of Alaska. This is to be expected, given that the largest resource exists in this vast area. Monitoring of the 34,000 square miles requires greatly expanded Coast Guard capacity as well as increased observer coverage.

It has been pointed out that doing business in Alaska is expensive. Remote areas require that one bring his support system with him or do without it. Remoteness has its advantages too, of course. For example, in the summertime the daylight lasts twenty-four hours and so fishing time is doubled. Most bays and harbors have strong natural flushing systems that can easily handle the waste from the fishing operations. Characteristics such as these need to be considered when policies are created and regulations promulgated to protect the environment.

The unit cost of transportation is probably not going to decrease in the decade ahead. However, improved transportation and communication systems in Alaska are desperately needed. Air freighting high-valued salmon and king crab was possible. Pollock and cod, in frozen form must travel by surface modes. Increased service and shorter turn around time could make the difference in getting the underutilized fisheries underway.

Marketing

Marketing of domestically produce seafood promises to be a monumental task. Marketing product from Alaska is further complicated by the myriad of factors that make it more difficult and thus more expensive to do business from a remote location.

Federal involvement in both the domestic and export marketing of seafood is an activity that receives mixed reviews from the industry. It is my opinion that there is an appropriate role for the public sector to play here. Consumer education, the Catch America campaign, and support for the private sector's involvement in the foreign arena are three examples. It is my opinion that without the support and involvement of the Department of Commerce in the World Food Fair in Germany this fall, we would not have had such a successful show. I would add a word of caution; the industry should be taking the lead on such ventures both financially and administratively. The Department of Commerce should not be standing between the U.S. producer and the buyer.

Distribution systems for seafood products, especially those from Alaska, are inadequate. Often product moves from the West Coast to the East Coast and back to the consumer in the West; inefficient to say the least. Regulations affecting the transportation industry might take this into account. Increased tariffs on imported fish blocks would also influence and encourage the creation of a West Coast distribution system.

New packaging and handling systems need to be developed. The U.S. consumer as well as his foreign counterpart, is demanding fresh fish. It is almost physically impossible today to supply low unit valued species fresh from Alaska. Certainly it is uneconomic.

In order to accomplish total utilization of the resource, new product forms must be developed. This is a costly and time-consuming activity; however, the cost of test marketing and promoting such products staggers the imagination. Market development for U.S. produced seafood must be a coordinated and sustained public-private sector undertaking.

Summary

The underutilized fishery resource off Alaska is vast and varied. Today, it is estimated at over two billion pounds annually, which translates to roughly two billion dollars a year. Eighty percent of this resource is being harvested and processed by foreign operations. The existing traditional fisheries are over capitalized and the resource in most instances is at a maintenance level or declining. The best potential for growth and development is with cod, pollock and other groundfish.

The current financial climate is stifling; existing biological and eco-system data is inadequate; appropriate harvesting and processing capacity is evolving; foreign competition and control of the markets is almost overwhelming.

Nonetheless, it is in the best interests of the nation that a strong cooperative federal/industry program of development focus on these fishery resources for the following reasons:

Domestic utilization of the two plus billion pounds of products available annually from Alaska would provide jobs and revenues to both Alaska and Washington. Esti-

mates indicate that the present U.S. harvest of 2.5 million metric tons can be doubled through a focused program of development.

Such fishery development will favorably affect the balance of trade which currently shows seafood as the third largest trade deficit nationally. Sixty percent of the whitefish consumed in the United States is imported. Alaska's product has been tested and proven to be a suitable alternative.

Decreasing access to fishing grounds for foreign fleets as a result of extended fisheries jurisdiction has resulted in increased demand for product from the "have" nations.

Economic stability which will be achieved only through healthy development is a necessary component of successful fishery management.

The federal government must be involved with international trade policies and issues.

Development will mean a greater variety of quality product available to the U.S consumer.

What role should government play in the development of the underutilized resources? It is the government's role to provide a business climate that reduces uncertainties, and encourages investment and risk-taking by the private sector. During the earlier stages of this development period, government may play a larger role than that which will be appropriate as the industry becomes more stable. However, responsive fishery management practices and political support for the industry in the international and regulatory arenas, should remain as essential functions of the federal government.

We have progressed quite a distance over the last four years. Four years ago, in the heyday of the king crab fishery few were concerned with pollock and cod. Today, the man on the street is aware that there is a potentially profitable fishery that lies untapped by the domestic industry. Today, we at the Foundation, have three times the inquiries we had two years ago with respect to groundfish. Today, we find interest world wide in Alaska's fishery both as a source of supply and as a potential investment arena. For years, the Pacific Northwest industry has been forced to look to foreigners for capital to expand operations as well as to just keep the doors open. That situation appears to be improving with the support of Congress and the State Department through its Fish and Chips policy.

Cutting off support in 1983 will retard if not halt the development efforts that are just getting underway. The industry needs time and space and support as it wrestles with the many challenges confronting development of underutilized species. The whole nation stands to benefit from an expeditious development process that will leave this industry strong and in control of its own destiny.

Thank you again for offering me an opportunity to comment here today. I will be happy to answer any questions you may have.

Sentor GORTON. Thank you. We'll hear next from Mr. Granger.

Mr. GRANGER. Thank you, staff members. My name is Pete Granger. I am executive director of the West Coast Fisheries Development Foundation and am pleased to be able to testify before you today.

You have in front of you a copy of testimony that tells briefly what the foundation is, what it is doing and why it is doing it.

In the short time I have I would like to elaborate on three of the foundation projects over the past year or year and a half that involve underutilized species. One is the blue shark development project. During the 4-month period, mid-July to mid-November 1980, the vessel *J.J.* out of San Diego harvested 8,000 blue sharks and delivered shoreside about 150,000 pounds of dressed blue shark at an average price of about 25 cents per pound. In addition, shark fins were sold as byproducts for the export market.

The West Coast Fisheries Development Foundation provided marketing assistance and developed a variety of point-of-sale and consumer information materials. Market effort was sufficient to sell all of the product by January 1981.

Market interest ranged from southern California to the Northwest and as far east as Denver. The project has established the Pa-

cific blue shark as a viable alternative fishery for really the entire coast as the shark ranges the coast. The fishery can provide additional income for a wide range of fisherman and of course provide a new important protein source for the American consumer.

Another project is the *Blue Ocean* project. The motor vessel *Blue Ocean*, a 162-foot factory trawler, operated for 39 days catching and processing Pacific whiting off the Washington coast, in the summer of 1980. The primary objective was to produce frozen blocks of fillets of acceptable quality for use in the domestic market and to determine the commerical feasibility of such an operation. It was amply demonstrated that Pacific whiting can be caught in sufficient quantities for a prolonged period to support a factory ship operation. But for production of the blocks, commercially available processing equipment did not meet expectations as to rate of production or adequately producing bone-free fillets. This required an unacceptably high level of hand labor to produce the blocks. No machinery improvements are underway as far as is known and this problem will continue to exist in the near future.

The low yield and high labor requirements appear to make fillet block production not feasible at this time. This project has left west coast processors, who indeed asked for it, with the knowledge that at this time the product is not feasible. With the present market conditions, I think the project in that regard served a very useful purpose.

The third project is our west coast groundfish marketing program. During 1979 the market for all west coast groundfish products collapsed. As a result, prices to fisherman dropped over 50 percent, and processors were faced with excessive and costly inventories of slow-moving frozen product. This, coupled with high interest rates, caused several processors to close their doors and a few fisherman to lose their boats.

A complex set of factors caused the collapse. Perhaps the major contributor was the increased import level of subsidized Canadian product. However, a limited marketing area together with increased landings of fish aggravated the problem even more. These increased landings included the previously underutilized widow rockfish. In order to find some relief for the industry, The Oregon Trawl Commission and the West Coast Fisheries Development Foundation requested and received Saltonstall-Kennedy funds to initiate the groundfish marketing program.

The effect of the marketing program has been to help the market assimilate the doubling of groundfish landings, and prices to the fisherman have risen as a result. Foundation staff members and adjunct groups, such as the Fishermen's Wives Coalition for the West Coast, continue this consumer education marketing program. It's a program that everyone can agree on, moving more fish, expecially the underutilized ones.

So these are three of several projects the West Coast Fisheries Development Foundation is working on and has worked on. I wanted to mention a species which we are turning our attention to and that is squid.

There is a large underutilized resource here. Catching and processing technology is known. The major impediment to the development of the squid fishery is lack of consumer acceptance. Consum-

er education and market promotion are appropriate to overcome this impediment. We have an opportunity for real development here and I think we should not pass it up.

I would like to conclude by saying in the few short weeks that I have been aboard as executive director I already realize what an exciting and challenging opportunity we have in the work that is going on. The Government funds are very crucial to this process and so is the key ingredient of industry participation. We feel that the foundation efforts without development efforts are essentially wasted efforts.

Thank you for your attention.

[The statement follows:]

STATEMENT OF PETE GRANGER, EXECUTIVE DIRECTOR, WEST COAST FISHERIES DEVELOPMENT FOUNDATION

Mr. Chairman and members of the committee: My name is Pete Granger and I am the executive director of the West Coast Fisheries Development Foundation. The West Coast Fisheries Development Foundation represents the commercial fishing industry in the States of Washington, Oregon, and California, and our offices are located in Portland, Oreg. I am pleased to be able to testify before you today.

The membership and the board of directors of this foundation consider the fisheries development process to be an economic process. It is true that a number of the renewable fisheries resources off our coast are, as yet, not fully utilized for the benefit of this Nation and its citizens. These resources include such diverse species as Pacific whiting, squid, mackerel, and short belly rockfish.

Our industry, both in the fishing and in the processing sectors, is made up of a large number of small, closely-held family firms. Although these firms face a constant high level of risk in their daily business efforts, few, if any, have the financial resources to justify a commitment to developing resources of unknown worth. Fisheries development foundations were created to overcome this obstacle. Utilizing Saltonstall-Kennedy funds and industry funds, and working closely with the commercial fishing industry and the National Marine Fisheries Service, the West Coast Fisheries Development Foundation has designed and managed a number of projects which have contributed to an effective and efficient development process for our fisheries resources.

These projects include a wide range of activities which are directed toward consumer education and domestic market development for fisheries products from the Pacific coast. There can be no real development without consumer understanding and acceptance. In addition to marketing efforts, the foundation has also pursued pilot project to test available product technologies and to evaluate costs and investment potentials for the production of underutilized species. This information is critical to any decision which commercial industry participants must make relative to new fisheries ventures.

The following is a selected list of projects which the West Coast Fisheries Development Foundation has sponsored and managed during the past two years:

1980–81

Operating grant and consumer education program for the West Coast Fisheries Development Funding.

A program to train and utilize volunteer fishermen's wives to educate meat market managers in the proper method of purchasing, handling, and displaying fresh seafood products.

A project to evaluate and develop the blue shark fishery on the west coast.

A program to promote and market west coast groundfish (whitefish).

A pilot project for a shore-based block freezing process for Pacific whiting.

A pilot project for a factory trawl/processor ship operation for Pacific whiting (blue ocean).

Participation in a national seafood marketing campaign coordinated by NMFS.

A comprehensive fishing port inventory and infrastructure analysis for the west coast.

1981–82

Operating grant and consumer education program for the West Coast Fisheries Development Foundation.

Continuation of Pacific groundfish marketing program.
Continuation of fishermen's wives program.
Preliminary squid marketing program.
A project to develop alternative market forms for Pacific mackerel.
A project to design a regional marketing association.
A project to design and test a mincing machine for Pacific groundfish.

Time precludes providing any detail on these projects, but my staff and I will be happy to respond to any requests which you might have for additional information. We are very pleased with these initial efforts at fisheries development. They give promise of both a progressive and cost-effective solution to the development of these valuable resources for the benefit of the United States and its citizens.

We would like to thank you for your interest in the west coast fishing industry and for your efforts to understand and promote and develop the fisheries resources of the United States.

This concludes my statement. I would be happy to answer any questions you may raise.

Senator GORTON. Thank you Mr. Granger. You have just lead into my first question for both of you.

As you know, the proposed 1983 budget will eliminate the Saltonstall-Kennedy program. Is the level of industry participation in your foundation sufficient to continue a viable program if Saltonstall-Kennedy is reduced or eliminated?

Mr. GRANGER. I would respond with a definite no. At this time Sara described the industry as in a survival mode and they're in no position to advance in sufficient quantities to take up the slack if Saltonstall-Kennedy is completely cut.

Ms. HEMPHILL. I would agree. I would think that there is a need for cooperation with the Federal Government above and beyond just the dollars. There is a prospective here from the Federal side that I think is important.

I think that we have seen over the last 4 years variable input from the industry as far as the dollars and interest and even energy is concerned. There have been moments when I have wanted to go into the closet and cry, thinking "Why am I doing this?" Nobody else is onboard.

I think when I have seen in the last 6 to 8 months where the crab fishery has, and the state it's in and what have you, a great deal more support from industry is needed to continue the program and keep it going. I don't think we have to support it totally with Federal dollars as was more the case when we began the program, to get it started.

Senator GORTON. You've heard Mr. Gordon speak about the various areas in his jurisdiction which would be reduced in the proposed 1983 budget. Can either of you give me any sense of priorities as far as restoration of funds for any of those programs?

Ms. HEMPHILL. That's a tough question. It depends to an extent on which segment of the industries we're addressing and since we supposedly represent all of them, that puts us in a tight spot.

I think that despite the fact that we sit in the development camp, management is clearly at least one of the priorities. Expediting the management plans and making sure they are in places of something that is critical.

One of the goals of our foundation is to work much more closely with the North Pacific Management Council to coordinate management. We in Alaska especially have a fantastic opportunity to do that. I think that the marketing situation as far as our foundation

goes, we don't focus on marketing. There is another organization that does marketing for Alaska with a good deal of State funds and State moneys.

Mr. GRANGER. Our foundation has taken a different tack. We have acquired a staff of three people to do a lot of the marketing efforts in-house. We feel it is a very efficiency way of making use of the funds rather than contracting them out. We have much tighter control of what is going on and there is much more continuity from here to there.

This process would obviously be short-circuited with the budget figures coming out the way they are.

Senator GORTON. Is industry increasing its research and development capacity?

Ms. HEMPHILL. I think so. We have in the past 6 months had many, many requests and inquiries about such things as developing equipment that is appropriate for the fish in Alaska. Bough equipment that works on widgets in the North Atlantic doesn't necessarily work on similar widgets off Alaska. We have many requests on that line.

Senator GORTON. Let me direct my next question to both of you. Each of you obviously favors the continuation of, or the strengthening of, a number of financial support mechanisms for the industry. Each of you knows about the administration's proposed cutbacks in that regard. To what extent can tough administration enforcement of these laws, agreements and joint venture participation make up for the lack of financial support? Do they balance one another off to any degree?

Ms. HEMPHILL. Possibly; well do you mean direct dollar output from the Federal Government, is that what you're talking about?

Senator GORTON. I am referring to regulatory relief, among other things.

Ms. HEMPHILL. For instance, any of the EPA, the waste treatment, and those sorts of regulations really hurt the Alaskan industry, particularly fishermen operating in a remote area. Transportation, the transportation situation in Alaska is extremely costly and prohibitive and it really has inhibited development. There is an issue before the Congress right now that addresses that problem. The Jones Act is the issue, allowing a window possibly to bring in foreign, modern boats for a specified period of time would offer some relief to the fishing industry. Not to mention is the fact that it would disturb some other industries, I appreciate that, but I think, at least in the discussions that I have had with the industry people, this industry is not talking about continued subsidies. They don't want it. Their golden rule hangs over their heads and independence is important and I think, if anything, we're talking about a timeframe and I think we could develop one that would phase itself out and that's what this industry is getting at.

Mr. GRANGER. I can't respond on the regulatory side but to reiterate, I've only been here 2 weeks and I'm really excited with the industry participation as it stands with this foundation. I've been in other situations using Government funds where it wasn't nearly as substantial, but again the dollar support is not quite there. I'm looking forward to increasing that support through my office and

our foundation cooperation. So, an orderly phaseout, to me, is the best ticket at this point.

The other thing that I would like to say about the foundation in general is that they form a unified, if you will, force, at least in the three Western States. Every segment of the industry can look toward this as the resource base and of course this is the way that we want to build our industry support.

Mr. PRITCHARD. I am struck as I sit here, by the problems you have because you are so many small independent organizations.

You would be better off if you people were like the deep sea mining organizations, which I don't think are nearly as important to the long-range future of this country as the fish and production of protein, and yet our whole precision of the law of the seas is hung up because the mining companies have real muscle. They are just a few companies and because they are so concentrated they can apply a lot of political muscle. I'm not sure we want the fishing industry to be down to two or three companies, but it does make the effort like our R. & D. much easier to make long-term investments because of structure.

I'm interested in some of your efforts up in Alaska. You say that you're going toward shoreside processing?

Ms. HEMPHILL. We are trying. We have spent 3 years, literally 3 years putting together a shoreside unutilized species pollock and cod processing operation. The first attempt was a contract which was never really signed with a New England fish company and the second attempt was a contract with the company that followed at the Gibson plant in Kodiak, the Alaska Food Co. We determined that that was still much too risky. We were talking about such a huge amount of Federal dollars, and everyone was nervous about it and we terminated that contract mutually. We are now working with Triden Seafoods in Akutan and they are building a new plant and I think we will hear more about this new plant later today, and we have our fingers crossed.

Mr. PRITCHARD. That is a project you still are pursuing?

Ms. HEMPHILL. Yes. Despite evidence to the contrary, I think there is still a great deal of interest in shoreside, and possibly secondary processing also. Primary processing and freezing at sea and then moving the product to shore and processing there. Alaska is very keen, and understandably so, on continuing to have more activity taking place within Alaska, rather than moving products directly from Alaska abroad and there is a great deal of interest in that.

I think just generally, for the good of the industry, the sooner we can learn a lot about fish, the better shape it is going to be in. There is that consideration also.

Mr. PRITCHARD. How much Federal money in the new one?

Ms. HEMPHILL. The new one is funded at half the level that the second one was funded at, it is at $800,000. The cost share from the industry is at least three times that.

Mr. PRITCHARD. I think the question, as we look down the road, is that those Federal dollars are going to be harder and harder to get. I think you have to have some sort of a priority basis on how we use the Federal dollars for the enhancement of the fishing compliment. I couldn't help but be struck by that.

I think the other thing is, I would hope that the development that you have in Alaskan fish is really for American fishermen and we don't get caught or hung up on this business that we are going to do something for Alaskan fishermen. I think most programs that are done properly are good for the fishing community. If we do things that make sense, the whole country will be enhanced.

I think you have an unusual opportunity because the State of Alaska can participate and be helpful to your industry in research and development whereas the States of Washington and Oregon and other States are going to be so strapped that it is going to be hard to get any funds out of Olympia to support R. & D. on our west coast level.

So, maybe you have a unique opportunity and I really hope that you don't close the door to other fishermen in the 48.

Ms. HEMPHILL. You're absolutely right. That's one of the thngs that our foundation has been criticized for by the Alaskans, is that our focus has tended to be on the offshore large fishery. The thinking has been that that is the future and until that is put together and established, the smaller ones aren't going to have a game to play at all. So we have, in fact, been criticized for favoring the Seattle boys all the way around and balancing and putting together a program that benefits everybody has been a real challenge.

Senator GORTON. Thank you both very, very much.

Panel II will consist of Mr. Petersen and Mr. Goldsmith. Mike Nordby, the manager of Trans-Pacific International was to have been here but was unable to attend.

Mr. Petersen.

STATEMENTS OF KEN PETERSEN, MEMBER, HIGHLINERS ASSOCIATION OF SEATTLE; AND RICHARD GOLDSMITH, EXECUTIVE DIRECTOR, NORTH PACIFIC FISHING VESSEL OWNERS' ASSOCIATION

Mr. PETERSEN. I am Ken Petersen, a fishing vessel owner and operator, owner of the *American No. 1,* one of the owners in the vessel and also a member of the Highliners Association of Seattle which is made up of a number of successful fishermen throughout the area of the North Pacific from California to Alaska.

I would like to talk on behalf of the Highliners. We feel very privileged for the opportunity to be here. Once again we feel privileged to have the opportunity to express our views regarding the problems confronting the fishery development and some of the problems that are confronting the American fishermen.

Senator Gotton, we recognize that a congressional hearing of this type, we don't want to leave Joel out either, being held today provides a forum for venting problems. The problems are often easy to identify, but solutions are more difficult to characterize and implement.

Leading up to my remarks, we would like to thank you for the opportunity to be here and thank you for your past work on our behalf in Congress and the various Government agencies. It is a great pleasure when you do have the support of your representatives. In this sense, the MFCMA and various fishery assistance programs are examples of efforts on the part of Congress to assist the

American fishing industry. We are not totally insensitive to these efforts.

There are those who say these efforts have failed and have not achieved the results expected and, in part, that is true. On the other hand, these efforts have provided the United States with management control over extensive resources that only several years ago were subject to a multinational free-for-all.

Many stocks, characterized as overfished prior to MFCMA has provided a legislative basis for U.S. fishermen and processors to become more competitive for certain species, and we are beginning to participate in a substantial way in the use of the North Pacific bottomfish.

In the past several years we have seen a major increase in joint venture activity which has provided alternative income opportunities to fishermen, if not processors; growth in the U.S. cod fisheries; a major expansion of the fresh filet industry off California, Oregion, and Washington; and successful operation of a large U.S. factory trawler, the *Arctic Trawler*.

These successes, of course, have not been without problems, and we face an uncertain future. Over-the-side purchase of fish in the United States FCZ has been expanding and is expected to increase in the next several years. Some of these ventures have worked out well. Others appear to have been poorly and haphazardly organized and inadequately financed. The latter have resulted in financial problems to both U.S. fishermen and processors, disruption of historical allocation patterns, and difficulty in management of the resources.

There have been problems in contractual interpretations and in accounting for both the catch quantities and species delivered to foreign processors. Finally there are questions of performance in terms of the original obligations made to fishery management councils and U.S. officials to gain access to the U.S. Fishery Conservation Zone and to purchase fish that previously were part of some other nation's TALFF.

These problems are operational and procedural in character. They are, in part, the result of sloppy business practices, unfamiliarity with operational procedures and cultural differences in the conduct of business. The resolution of these problems is largely the responsibility of the industry.

Other problems are associated with the criteria and basis for authorizing joint ventures, monitoring their performance in processors, and screening of potential joint venture applicants in terms of their capacity and financial ability to perform.

We are curious as to why foreign joint venture partners who alter catch records and do not provide the benefits promised continue to receive operating permits. The latter problem is, in our view, an issue which must be addressed by the Government, both the executive branch and Congress. We will comment on potential solutions later.

One thing which is a glaring example of this is the Germans given additional quota of codfish last year in light of the many violations that they had and the requirement they have standing before them and still they are rewarded by getting additional allo-

cations. From time to time the Japanese seem to be going in the same direction.

In addition to these problems, our processing sector has not shared in this recent expansion. We would, of course, prefer that our processing sector share in the growth of the domestic utilization of the bottomfish resource. We have a tremendous resource potential that could be used to supply the whitefish requirements of this country, which are currently imported from abroad. There is a need to help develop competitive products for the U.S. markets and a strong U.S. processing sector. In our view, a strong U.S. processing industry is vital to the economic stability of the U.S. harvesting sector.

Regardless of these problem areas, we must recognize the benefit to our harvesting sector of the expanding opportunities being provided for U.S. participation in the harvest of groundfish resources. Joint venture activity is allowing U.S. vessels to gain experience concerning availability and behavior of the resource, midwater trawling and at-sea transfer techniques.

Even more important, perhaps, it has demonstrated that U.S. fishermen and their vessels can produce the quantities and quality of product required to supply the needs of foreign processors. This experience, coupled with the success of the *Arctic Trawler*, has quelled the myths that Pacific species of bottomfish are inferior to those caught in the Atlantic, that American fishermen are not competitive in the harvest of bottomfish and that the U.S. industry could not produce a high quality product.

These experiences provide the foundation for developing and expanding the U.S. bottomfish industry in the Northeast Pacific, but our ability to consolidate these gains and move ahead is being threatened by continued high interest rates, a declining economy, the sharp decline in the size of the king crab stocks in the Bearing Sea, uncertainty about the character of management plans to be implemented, a proposal by the U.S. Coast Guard to impose user fees for services provided and an apparent reluctance by this administration to continue to provide low interest loan guarantees to U.S. fishermen and processors.

There has never been a time in the history of the west coast fishery when so many sectors of the industry have found themselves in economic difficulties.

Fishery development will depend to a large extent on the conviction by both processors and harvesters that they are able to make a reasonable profit in a new venture. An industry, however, which is fighting to maintain the existence of traditional fisheries and is being strangled by high interest rates, is not likely to be overly enthusiastic about expanding into new and risky areas.

If, on top of the economic woes which confront our Nation, we pile on a disastrous crab year, the failure since passage of the MFCMA to put in place management plans for king crag and bottomfish which will establish a management environment under which existing and new fisheries must operate, and the threat of new fees imposed on an already demoralized industry, the potential for development of the U.S. industry as a whole looks bleak. The abandonment of the loan guarantee program at this point in time will not only diminish hopes for developing the bottomfish industry

in the North Pacific, but may also scuttle certain established fisheries in this area.

If history tells us anything, it is that Government support for increased duties on imported whitefish products is not likely. Similarly, it is unlikely that our deliveries will be met through price supports or subsidized fuel. We are hopeful however that our office and Congress can help the fishing industry through retention of the loan guarantee program, extension of the capital construction fund to processors, discouragement of the proposed Coast Guard costs for services, encouragement of NOAA to implement a management plan, taking into account the desire for fishery development.

Number five is quite important, the improvement of the criteria for approving joint ventures and establishment of their contribution to development, capacity to perform, both physically and financially, and performance in terms of original obligations. We would be pleased to assist your office in drafting language to modify the MFCMA along these lines.

Next would be establishment of stricter auditing procedures of foreign fishing activity in respect to the Fishery Conservation Zone regulations and participation by playing a stronger role in promotion of joint venture arrangements for both U.S. fishermen and processors.

I have a few little notes that I made along the way. I'd like to bring to light the purpose for the Russian joint venture which we participated in a year ago which proved to be very successful for us. Now while the Russians have had their problems and we have had our problems, they have displayed more sincerity in dealing with the joint venture as a true business than I can say some of the other people that we have had contact with. The Russians, I might also bring to light, to my knowledge, have no fishing violations and all you have to do is look at your chart to see what other countries have done, if they can say the same thing.

One other thing is that if we take the Russian and the Polish joint ventures out of the spectrum that we have today, why this really leaves us with only one country we are doing business with and this is Japan and they are not willing partners, believe me.

The other thing is I was listening to Sara regarding the funding of the program that she is working on and believe me, Joel, I really enjoyed your comment that Sara, I must say, has been very, very helpful in calling and working with us in the State of Washington or at least with us and is doing I think a very admirable job. In our travels throughout the world, she is there representing all American fishermen, not just Alaska.

I would like to make a suggestion that the foreign catch processors pay for our development fund. Add a tax on to them. We're paying income tax. We're paying all these various taxes. Let them participate by paying a small fee on a tonnage basis in addition to what they already are. Let them help us develop our fisheries because they're the ones that are really utilizing it at this time.

Thank you very much.

Senator GORTON. Thank you. Mr. Goldsmith.

Mr. GOLDSMITH. Mr. Chairman, my name is Richard Goldsmith and I am executive director of the North Pacific Fishing Vessel

Owners' Association. As a representative of the harvesting center, our emphasis on the development of underutilized fisheries is on joint ventures.

First of all, I would like to thank you, Mr. Chairman, and you, Representative Pritchard, and your colleagues on the Hill along with Bill Gordon and Carmen Blondin, of the National Fishery Service, and Ted Kronmiller of the U.S. Department of State for their deep continued support of joint venture fisheries.

But, for all of this work to be fruitful, the United States must stand firm on its commitment to joint ventures. It is our position that there should be no releases allocated to the House until four nations agree to commit to joint ventures tonnage which is equal to 25 percent of its projected allocation.

We also hope that releases will not be made in April and July until the foreign nations have actually invited U.S. fisheries to participate in joint ventures and contracts have been signed prior to releases to the allocated totals.

If I might divert from our written testimony, I have prepared two tables which I believe you have copies of with my statement. The first table looks at 1981 fishing in the Northern Pacific waters, the U.S. Fishery Conservation Zone, and the second looks at the 1982 fisheries. Some interesting statistics come off by comparison and I would like to point some of them out to you.

For instance, in 1981 Japan which had almost 81 percent of the directed fishery allocations in the North Pacific waters only participated in joint ventures to less than 1 percent of the total harvest of 11,445 metric tons. In fiscal 1982, and I want to stress that these figures are probably subject to challenge but they at least give you an idea of the kinds of issues we are dealing with, in 1982 Japan direct allocation increases to 85 percent, the joint venture harvest gradually moved to 3.25 percent. If you notice too in 1981 the Soviet Union which did not have any direct fishery allocations was the leader in joint venture harvest with 47,588 metric tons in the North Pacific waters.

This year they are trying to go for 56,000 metric tons. It is interesting to note that if the ratio of the actual harvest to the joint venture allocations holds true for 1981 and 1982 is good for 1981, we're probably looking at a lesser total tonnage in 1982 in joint ventures. Applying the 45.8-percent figure from table 1 to 1982, we will have a joint venture actual harvest of somewhere between 81,000 to 85,000 metric tons.

It is also noted that in 1982 there is only the increase from 7 to 10 boats in joint ventures. Again this is an estimate. Contracts have not been signed.

It is interesting that Japan last year in one of their joint ventures claimed a loss of $1 million. I just received some information from one of our members, a Captain Bohanen, who fished on a joint venture last year. He did an interesting analysis. Although it is a preliminary analysis, it showed in fact that there were not losses in the fishery last year but the losses that Japan claimed were actually reduction in profit of $1 million that they would have had if they had used their vessels versus what they achieved using our vessels and I would like to present that for submission to the record.

So in fact, it was not a loss to that fisheries last year according to Captain Bohanen's calculations. There was just a reduction in profits.

One thing that is very important in the joint venture field is the renegotiation of the Polish and Soviet GIFA's. As I mentioned, the Soviets, without regular allocation, have been the major participants in joint venture fisheries. We recommend that the administration go ahead with both of these GIFA's. It is important to the well-being and continued viability of the domestic harvesting capacity.

Bill Gordon, when he was up here, said that he is encouraging other fishermen to look into other joint venture markets because of the problems with the Soviets and Polish GIFA's. This only stresses the fact that the United States must stand firm in its commitment to joint ventures because if the U.S. Government does not stand firm on joint ventures then the foreign nations are not likely to participate.

We also need an administration policy on the development of underutilized fisheries. We cannot encourage growth in these fisheries if we are operating in an atmosphere of uncertainty. We are not looking for Government handouts. We are not looking for Government bailouts. We would only like the administration to create a stable environment from which the bottomfish fishery can develop.

You on Capitol Hill have already pointed the way in policy by the Magnuson Act by encouraging development of the bottomfish industries especially off Alaska. The North Pacific Council and other councils must also follow the dictates of the Magnuson Act in its policies and provisions. They must use their determinations to promote development of the underutilized fisheries.

Another item I would like to address is, the OMB and its proposed tab on the fishing vessel guarantee program. They're proposing a cap of $50 million during the fiscal year of 1982. These moneys, actually the word moneys is really a misnomer, but having the obligation program enables fishing vessel owners to be able to get loans at interest rates and pay off at terms which are somewhat better than they could get in the private sector.

To give you some statistics, there are 21 king crab vessels financed into this program title 11. Their value is from $50,000 to $1 million. There have been no delinquencies. The $50 million cap has been proposed by OMB, the Pacific Northwest for trawler conversions and also for building new trawlers. So we would urge that Congress send a message to the administration that the cap be lifted.

Finally the industry has an obligation and that is that they must keep Government informed. Most of you who have supported us over these years in developing a bottomfish fishery must be aware of our successes and our failures and we will look forward to working with you on the Hill and those in the National Fisheries Service in the State Department to continue to develop these fisheries.

Thank you.

[The statement follows:]

STATEMENT OF RICHARD GOLDSMITH, EXECUTIVE DIRECTOR, NORTH PACIFIC FISHING VESSEL OWNERS' ASSOCIATION

Good morning, Mr. Chairman and Senators, I am Richard Goldsmith, executive director of the North Pacific Fishing Vessel Owners' Association (NPFVOA). NPFVOA is a Seattle-based organization whose members own the majority of large vessels (87' to 160' in length) which harvest king crab and tanner crab in the Bearing Sea. In 1981, some of our members participated in joint ventures for Alaska pollock, Pacific cod and yellowfin sole in the North Pacific Ocean. Other members, responding to the dramatic and precipitous decline in the king crab stocks in the Bearing Sea during the 1981 fishery and to predictions that both the king crab and tanner crab stocks would remain at low levels for the next few years, began late last year to convert their crab vessels for trawling. By spring of this year, 42 of the vessels owned by NPFVOA members will be rigged to trawl for bottomfish.

Thus far this year, the few joint venture markets and domestic and foreign cod markets available to U.S. fishermen are not sufficient to handle all the trawlers (whether Association of non-Association) ready to fish. Due to the intense competition between domestic harvesters for joint ventures, prices for pollock are, in many instances, below the norm offered last year.

In spite of these limited markets, U.S. fishermen have been spending half a million dollars and more per vessel to convert their crabbers for trawling. They have been expending these large sums because of the vast potential of the bottomfish resources of the North Pacific. Pollock and cod are not high-valued species like king crab and bairdi tanner crab. But if a large vessel can harvest great amounts of bottomfish, then this fishery can be profitable for a domestic fisherman. Through wise conservation, and management, pollock and cod appear capable of economically sustaining the U.S. large vessel fleet now operating in the North Pacific. Fisheries scientists estimate that 1.5 million metric tons or 3.3 billion pounds of Alaska pollock can be taken from the North Pacific waters of the Fishery Conservation Zone of the United States (FCZ). The annual yield of Pacific cod from these waters is estimated at 200,000 metric tons or 440 million pounds.

Of all the bottomfish resources, pollock seems to be the most promising for the development of a U.S. bottomfish industry: more Alaska pollock (by weight) is harvested in the world than any other species. And 23 percent of this world-wide harvest comes from the FCZ off Alaska! NPFVOA views a domestic pollock industry as evolving through three phases: (1) joint ventures; (2) at-sea processing; and possibly (3) on-shore processing. Joint ventures is the vital phase: its success will ensure that a domestic harvesting capability for pollock (and other bottomfish) exists. If American trawlers are not able to remain financially solvent through participation in joint ventures, their harvesting capacity may be lost to the U.S. fishing industry and the United States. Withoug U.S. vessels supplying bottomfish, no one will have to worry about building U.S. processing facilities or employing American workers on domestic processing lines.

Joint ventures—be they "over-the-side" sales, American-foreign partnerships such as Marine Resources Company of Seattle, or the leasing of foreign processing vessels by domestic processors—provide the U.S. fishing industry and the U.S. with social and economic benefits that previously were not available. Joint ventures now are creating markets for U.S. harvested fish, helping U.S. fishermen gain experience in catching bottomfish, and displacing foreign harvesting vessels in the FCZ with U.S. trawlers. Joint ventures can open up markets to domestically processed bottomfish as well as give U.S. processors and their workers experience in handling bottomfish.

With your permission, Mr. Chairman, I am submitting for the record a copy of the November 5, 1981 letter which NPFVOA sent to William Gordon, Assistant Administrator for Fisheries, NOAA; a similar letter was sent to Ted Kronmiller, Deputy Assistant Secretary for Oceans and Fisheries Affairs, Department of State. This letter stresses, in greater detail than I am able to cover today, the importance of joint ventures to the domestic large vessel fleet.

Through protections and incentives afforded to the U.S. fishing industry in the Magnuson Fishery Conservation and Management Act (MFCMA), extensive joint ventures ultimately could lead to the U.S. becoming the sole harvester and processor of bottomfish from the Norht Pacific waters of the FCZ. One provision of the MFCMA mandates a pound-for-pound phase-out of foreign harvesting as U.S. catches increase. And the MFCMA's domestic processor preference provision (the "joint venture amendment"), supported by both domestic harvesters and processors, states to the extent that U.S. processors expand their capacity and process domestically harvested fish, U.S. fishermen will have a corresponding reduction in their joint venture markets.

The MFCMA also gives the North Pacific Fishery Management Council a mechanism to help stimulate the development of the domestic bottomfish industry in the North Pacific: the Council's ability to reassess a fishery's optimum yield for social or economic considerations. The Council should thoroughly investigate whether reducing the optimum yields for Alaska pollock and Pacific cod would increase the access of U.S. fishermen and processors to world markets.

Clearly, the legislative tools for developing a domestic bottomfish industry are available in the MFCMA. The question then becomes to what extent will these implements be used? Ted Kronmiller at the Department of State and Bill Gordon and Carmen Blondin at the National Marine Fisheries Service (NMFS) have worked hard to make joint venture participation one of the significant criteria for determining a foreign nation's allocation of fish from the FCZ. U.S. fishermen appreciate their efforts. And the continuing support for joint ventures that has been shown by you and your colleagues in the Senate and House of Representatives has not gone unnoticed; domestic fishermen also are grateful for your work on their behalf. But the United States must be resolute in its commitment to joint ventures if everyone's labors are to bring results. In April and July, when withheld directed fishery allocations are scheduled to be released to foreign nations, the United States must only release fish to those nations whose joint ventures in 1982 have been bona fide operations involving substantial amounts of fish in relation to their allocations. For the United States to do anything less would severely erode the bargaining power of the United States in international fisheries matters and also threaten the development of a domestic bottomfish industry. As you are well-aware, foreign nations only comply with the TALFF allocation criteria to the extent necessary to give their vessels access to the fishery resources in the FCZ. If they perceive that small-scale joint ventures created without a concern for success will appease the United States and result in the release of fish, then there is no incentive for them to try to meet the allocation criteria in a manner which is of benefit to the United States. Thus, domestic harvesters and processors stand to lose whatever gains they have made into world markets.

It has been only in the last year or so that the federal government has truly embarked on a course to stimulate the development of a domestic bottomfish industry in the North Pacific. Although we are seeing a change in attitudes, this Administration must clearly and forcefully annunicate its policies regarding this bottomfish fishery to the U.S. fishing industry, the United States and the international community. Until the federal government gives strong assurances that this fishery can make major contributions to the economic well-being of the United States, the domestic fishing industry will be reluctant to commit the capital necessary to develop this fishery, and foreign nations, confident of access to the bottomfish resources in the FCZ, will balk at purchasing U.S. harvested and processed fish.

If the federal government creates an environment that is conducive to fisheries development, then we in the fishing industry have obligations to ourselves and those in government. Domestic harvesters and processors know what is best for their continuing economic health and growth. Therefore, it is incumbent that we draw up a plan to guide us in the building of a strong U.S. bottomfish industry in the North Pacific. The Alaska Fisheries Development Foundation can provide a forum for planning and communication within the industry.

The development of this new fishery may bring bottomfish fishermen into conflict with those in "traditional" fisheries. Already, NPFVOA and other trawling participants have been meeting with harvesters in other fisheries to solve any problems that may arise. We hope that fishermen will try to resolve disputes among themselves rather than resort to legislative or regulatory solutions.

Finally, we have a duty to keep those in government informed of major events in the development of this industry. We hope that our successes, our failures (may they be few), our problems and our perceived solutions to these problems are all of interest and importance to the legislators and policy makers who have supported and will continue to support domestic utilization of these bottomfish resources. We look forward to working with you and your colleagues on the Hill, Ted Kronmiller, Bill Gordon, Carmen Blondin and the many others in the federal government who want to turn the U.S. bottomfish fishery in the North Pacific into an industry which has significant social and economic benefits for the entire United States.

Thank you for giving me this opportunity to present the views of the North Pacific Fishing Vessel Owner's Association.

Attachment.

NORTH PACIFIC FISHING VESSEL OWNERS' ASSOCIATION,
Seattle, Wash., November 5, 1981.

WILLIAM GORDON,
Assistant Administrator for Fisheries, NOAA,
Washington, D.C.

DEAR BILL: I was glad to have had the opportunity last week to bring to your attention some of the concerns of the Seattle-based fishermen who crab and trawl in the waters of the Fishery Conservation Zone (FCZ) off Alaska. Again, I must stress that the issue which is of paramount importance to them and requires the immediate attention of NMFS is the need to get the large combination trawling-crabbing vessels into joint ventures in 1982. If foreign nations are not quickly encouraged to engage in successful, large-scale joint venture operations with U.S. fishermen, then the large domestic vessels which fish in the Bering Sea will face severe financial difficulties. These hardships will, of course, also hinder the development of a U.S. groundfish industry for the waters off Alaska.

Although trawling off Alaska has been part of the long-range plans of the king crab fleet, the impetus has come from the monumentally poor harvest in this year's king crab fishery in the Bering Sea. At best, this fishery will attain a harvest that will be about 70 percent below last year's catch of 130 million pounds. And if the projections for the 1982 fishery hold true, the fleet will experience another 13 percent to 25 percent drop between this year's landings and next's. Neither can the fleet anticipate relief from the 1982 tanner crab fishery. Fisheries scientists are estimating a harvest of 30 million pounds of opilio, a 55 percent drop from the 1981 catch, and a potential yield of 15 million pounds of bairdi, a 51 percent decline from 1981.

Admittedly, as landings decline, prices paid to fishermen for these different species of crab should increase. But as vessels operate longer to catch less crab, the increased prices have less, if any, of a mitigating effect on the upward spiral of such operating expenses as fuel, and maintenance and repairs. Nor do higher prices for smaller amounts of crab enable many owners of new vessels to meet their interest payments, such less pay off the principals on their mortgages. For these owners whose multi-million dollar vessels were built in the last few years, interest payments of $1,000 per day are not uncommon.

Because of the bleak outlooks for the king and tanner crab fisheries, it appears that the logical path of financial salvation open to large trawler-crabbers is joint ventures for Alaskan groundfish. However, these joint ventures must be bona fide operations: they must be created for success, and not only to give an appearance that the TALFF allocation criteria of the Magnuson Fishery Conservation and Management Act (MFCMA) is being complied with so that a foreign nation's vessels can keep fishing in the FCZ. In addition, these joint ventures must not be illusory—a foreign nation should not receive an allocation of fish from the FCZ on mere promises to buy U.S. fish products when these are available; instead, benefits must accrue to the United States.

The Association presently envisions a legitimate joint venture operation as taking two forms: (1) foreign "over-the-side" purchases of fish harvested by U.S. fishermen; and (2) corporations jointly owned by United States and foreign interests which purchase U.S. harvested fish for processing aboard foreign vessels, and then market these U.S. fish products in world markets. Marine Resources Company of Seattle is an excellent example of a highly successful joint venture of the latter type.

The potential for U.S. development of the groundfish fishery in all waters off Alaska is mind-boggling. Maximum sustainable yields for pollock and Pacific cod stocks are conservatively estimated at 1.5 million metric tons and 200,000 metric tons, respectively. If these groundfish resources off Alaska can be utilized by domestic fishermen—first through joint ventures and later, whenever possible, in conjunction with U.S. processors—then domestic vessels will be able to conduct year-round fishing operations and thus be less susceptible financially to the vagaries of the king crab and tanner crab resources. But should large trawler-crabbers be unable to engage in fisheries other than crab, then the consequences will undercut U.S. fisheries development and further increase the U.S. balance of trade deficit now and in years to come. Foreclosures on mortgages will result in tie ups of vessels and an exodus of good fishermen from the fishing industry. The substantial losses of harvesting capacity and experienced manpower would strike a crippling blow to any hopes for quick development of a domestic fishery for Alaskan groundfish. The long-term effects of such losses are less certain, but do not bode well for U.S. interests.

It is projected that at least 50 U.S. vessels will be available for joint ventures in 1982; already 41 vessels owned by members of the Association are equipped for trawling and have indicated a desire to participate in joint ventures. (Enclosed is a

list of these vessels. Please feel free to distribute it as you see fit.) If these 50 vessels are able to fish for five months, together they have the potential to harvest up to 300,000 metric tons of Pacific cod and pollock. With ten months of fishing time, these vessels may be able to take as much as 600,000 metric tons of these species. Clearly, U.S. fishermen now have the capacity to harvest the entire maximum sustainable yield for Pacific cod. Given this harvesting capacity and the MFCMA's mandate that only fish not able to be taken by U.S. fishermen can be made available to the foreign fleets, many of the Association's members are seriously questioning why there is a TALFF for Pacific cod.

Domestic fishermen would like to work with domestic processors to make the harvesting, processing and marketing of Alaskan groundfish an all-American industry. But domestic processors (in spite of the many chances available to them) have not set up processing facilities, created other processing opportunities such as becoming the American partner in a joint venture, or developed markets for these species. Therefore, U.S. fishermen must, in the short term, look overseas for markets for the fish which they are capable of harvesting. The success of large-scale joint venture operations, however, will not only put the trawler-crabber fleet on a sound footing, but will also open up markets abroad and result in the infusion of monies from bankers and investors into the construction of U.S. at-sea and onshore processing and handling facilities.

The ability of U.S. vessels to participate in joint ventures will depend, to a large extent, on the vigor with which NMFS and the Department of State encourage foreign nations and their fishing companies to engage in these operations. In addition to giving U.S. harvesters access to new or previously unaccessible markets, successful joint ventures result in the transfer of harvesting opportunities from foreign to U.S. vessels. Understandably, foreign nations would like to keep their vessels operating in the FCZ and continue to control the supply of Alaskan groundfish into the markets which they have developed. Thus, many foreign countries have perceived that it may not be in their interests to become involved in joint ventures; by their failure to participate, they can indirectly stem the growth of the domestic fleet and prevent U.S. intrusions into their markets. But these nations must be made to realize that Congress, in the MFCMA, made the development of the domestic groundfish fishery off Alaska a priority, and that cooperation with the U.S. fishing industry is a necessity if foreign nations are to receive allocations from TALFF.

As you are well-aware, the MFCMA sets down a number of criteria which are to be considered in allocating fish from TALFF. With the present condition of the crab resources in the Bering Sea and the potential setbacks to the development of the domestic groundfish fishery if large trawler-crabbers are unable to harvest other fishery resources, the Association strongly believes that foreign nations' immediate participation in successful joint ventures should be the overriding consideration in making allocations from the Alaskan groundfish TALFF. The Association is especially troubled that Japan, which received 80 percent of the 1981 Bering Sea and Aleutians Islands TALFF for Pacific cod and pollock, and 49 percent of the 1981 Gulf of Alaska TALFF for these species only had two pilot projects for joint ventures for Alaskan groundfish. To allow Japan to garner another large share of the 1982 TALFF for all the waters off Alaska without its involvement in successful, large-scale joint ventures would not only contravene the intent of the MFCMA, but would do a great disservice to American fishermen. We trust that NMFS and the Department of State will continue to actively encourage the Japanese to take immediate steps to enter into cooperative fishing agreements for Alaskan groundfish with U.S. harvesters.

The Association also suggests that releases of fish from TALFF be made on a quarterly rather than an annual basis. Such releases would enable NMFS and the Department of State to closely and carefully monitor the adherence of nations to the MFCMA's TALFF criteria. If a nation were not making good faith efforts at meeting these criteria, the U.S. response would be swift and immediate: fish would not be available in succeeding quarters until the errant nation brought its activities into line with the TALFF criteria. The present annual release system allows a foreign nation to depend on its past history of cooperation in order to obtain fish; by contrast, the proposed method of release will help ensure that compliance with the TALFF criteria is on-going and releases of fish reward current actions.

In closing, the Association has tried to present a realistic—not alarmist—view of the difficult situation confronting the large trawler-crabbers fishing off Alaska, and the steps which can alleviate some of these potential hardships. However, the Association cannot emphasize enough that NMFS and the Department of State must take quick and decisive action to ensure that foreign nations—especially Japan—participate in successful, large-scale joint ventures. Besides jeopardizing the finan-

cial well-being of this fleet and the continued growth of the domestic Alaskan groundfish industry, a failure by the federal government to respond quickly would not be in the best interests of the entire domestic fishing industry or the economy of the United States.

Sincerely,

RICHARD J. GOLDSMITH,
Executive Director.

TABLE 1.—1981 FISHERIES IN NORTH PACIFIC WATERS OF U.S. FISHERY CONSERVATION ZONE

Country	Directed fishery allocation [1]		Joint venture				
	Metric tons	Percent	Harvest (metric tons)	Harvest as percent of directed allocation	Harvest as percent of JV allocation	Number	Number of U.S. vessels
Japan	1,199,633	80.8	11,445	0.95	81.8	2	4
Korea	159,582	10.8	31,000	19.4	40	1	11
Poland	85,424	5.8	2,250	2.6	12.2	1	2
West Germany	22,681	1.5	3,000	13.2	11.5	1	3
U.S.S.R.	0	.....	47,588	.....	66	1	12
Taiwan	16,629	1.1	0	0	0	0	0
Total	1,483,949	100	95,283	6.4	45.8	6	32

[1] Does not include all releases of reserves.

TABLE 2.—1982 FISHERIES IN NORTH PACIFIC WATERS OF U.S. FISHERY CONSERVATION ZONE

Country	Directed fishery allocation [1]		Joint venture			
	Metric tons	Percent	Proposed harvest (metric tons)	Proposed harvest as percent of directed allocation	Number	Proposed number of U.S. vessels
Japan	1,146,370	84.4	40,000	3.5	4	10
Korea	178,460	13.1	48,000	26.9	2	10
Poland	0	.....	24,300	.....	1	6
West Germany	17,510	1.3	15,420	88.1	1	4
U.S.S.R.	0	.....	60,000	.....	1	9–12
Taiwan	16,682	1.2	0	0	0	0
Total	1,359,022	100	187,720	13.8	9	39–42

[1] Assumes that all nations meet criteria for receiving 50 percent of projected allocations withheld by U.S. Department of State; does not include reserves.

Senator GORTON. It's obvious that these joint ventures are of vital importance to your members.

Mr. GOLDSMITH. Yes, they are.

Senator GORTON. So what you want is renegotiation of the Soviet GIFA, better monitoring, and strict adherence to fish and ships agreements by the foreign nations with whom we have been dealing, for example, the Japanese?

Mr. GOLDSMITH. We feel that the administration backs off on its stand on joint venture right now. They withheld approximately 50 percent of the projected allocation for each nation. If the administration gives in and releases fish without adherence to joint venture criteria and other criteria in the Magnuson Act then that is going to totally undercut the bargaining power of the United States. Nations will realize that they can get fish without meeting the criteria.

Senator GORTON. And you feel it is especially critical that NMFS hang tough as far as joint venture participation by the Japanese?

Mr. GOLDSMITH. As you can see, their proposed harvest is 3.5 percent this year. It's a drop in the bucket.

Senator GORTON. Let me ask you, both of you, the same question I asked the others. Each of you obviously favors the continuation of, or the strengthening of, a number of financial support mechanisms for the fishing industry. Each of you knows about the administration's proposed cutbacks in that respect. To what extent can tough administration enforcement of these laws, agreements, and joint venture participation make up for the lack of financial support? Do they balance one another off to any degree?

Mr. GOLDSMITH. If you are referring to enforcement of the fisheries violation, is that what you're referring to?

Senator GORTON. Yes; and a higher percentage of required joint ventures as a condition of access, for example.

Mr. GOLDSMITH. I'm not sure how much nations are actually underlogging their catches. Of course, if we had stricter enforcement, that would be ultimately more fish that would be available for the U.S. fishermen. Strict adherence to joint ventures, if we can get those in our nets, we've got the capacity right now to harvest those fish and therefore it's vitally important that there be strict adherence to the joint venture and other allocation criteria.

I think, as I said, we're not asking for handouts and I think adherence to those policies and positions of the Magnuson Act will create that environment that we need and we won't have to ask for Government handouts because we don't want to, we can do it on our own.

Senator GORTON. Mr. Petersen, do you agree with that? Can you tell us what you learned from your own joint venture with the Japanese?

Mr. PETERSEN. Yes. I believe it's written into law already where the Japanese, or no matter who it is, participating in the fisheries in our zone, they are paying for the cost of their own enforcement. In other words, we put an observer aboard the vessel and they have to pay for it. So therefore I can't for the life of me see why we can't have 100 percent participation in the observer program. They are paying for it and in turn, while it's failed to get the answers, it's not practical to have 100 percent.

The other thing I have to agree with, did 100 percent, is that if we let any country proceed with fishing in the 200-mile zone before they have made an obligation to joint venture in the fisheries, in some magnitude, I don't mean simply token joint ventures, I mean a good percentage, say 25 percent, is a good one, and I would certainly like to see that because today we are only receiving a token participation and believe me it is not willing participation.

The Japanese with whom we have had to bargain, they are very sincere and very good negotiators and when they have the only store in the block, they know it and that is just the postion we're in today.

Senator GORTON. Let's go beyond the joint ventures. To what extent should we also, as a condition of access, encourage foreign nations to purchase a certain amount of product processed in the United States?

Mr. PETERSEN. That sounds very admirable and in turn I would certainly like to see it. I know that throughout the world they have every time we come up with an idea, well it seems like somebody else comes up with 20 reasons why we can't do it, but if we could have something that really worked, that would certainly help our processors, although I think in our own country we begin to come online ourselves to the product that we catch and process will be considered in our own country, providing we don't have to compete with a subsidized country or in fact hidden subsidies, and I think we do a very good job.

Two places that we have a lot of problems with, one is Canada bringing in a lot of very inexpensive fish and I am sure there is many others coming into this country whereas we can't go into their markets.

Senator GORTON. Mr. Goldsmith, would you like to comment?

Mr. GOLDSMITH. I would agree with Mr. Petersen. Not being a representative of the processing sector, I haven't given a lot of thought to the impact of requiring the labor but certainly there are numerous criteria for receiving talley and this should be greatly considered.

I would like to emphasize too the joint ventures, what we are looking at, the few joint ventures that were designed with the opportunity for success, we are concerned there are some nations which are involved in joint ventures only to get an allocation. They are really not committed to making those joint venture operations work. We had problems with the Korean joint venture last year and I understand there may be some problems developing this year. But this also, I might add, well Ken mentioned the Germans. I have talked with Bill Gordon and we are interested in working with Mr. Gordon and the National Marine Fisheries Services to try to transfer information with them on the problems and the successes that we're having with the joint ventures.

It is important that industry and Government maintain dialog to keep the lines of communication open.

Mr. PRITCHARD. Both of you are critical of the negotiators. What kind of comments have you got from the gentlemen that handles these negotiations? Some of them are going to be up here and we're going to ask them.

Mr. PETERSEN. I personally have not, Joel. The only thing is that I sit back and look to see what's going on within a joint venture fishery and let's say that the total allocation of the Japanese or allocated what they are taking and a very small participation in joint ventures, it becomes extremely frustrating when you look at the tremendous tonnage of fish that they're allocated to catch themselves and then the very small percentage we get for participating in the joint venture, like Dick said, a sincere effort for the 25 percent. I, of course, am very strongly adamant toward this sincere participation because we have seen many countries that have said they are going to participate, they ask for a large quota and then it appears that they try to make it fail so that you go away in discouragement and in turn they are allowed to fish upon their own and they don't have to put up with us.

Mr. PRITCHARD. You mean you think our negotiators failed to understand this?

Mr. PETERSEN. I do. I honestly think they do from a very realistic point of view. Maybe they wouldn't agree with me.

Mr. PRITCHARD. We'll probably give them a chance to disagree.

Mr. GOLDSMITH. Mr. Pritchard, again I'd like to emphasize that the industry negotiators, people in the State Department, and the Fish and Marine Service have to keep their lines of communication open. They have to be informed of the problems that we are having.

Mr. PRITCHARD. I feel that people that are in these negotiations want to do the best job they can, and it is a fairly serious charge because of the lack of having what we call real fishermen on there, so we have been kind of hornswoggled, I guess, is really what you're saying.

Senator GORTON. Thank you both very much. I appreciate hearing from you.

Before we go to panel III, I wonder if Mr. Gordon would return to the witness table and comment on these two tables which Mr. Goldsmith has submitted to us, and tell us what they indicate, particularly with respect to Japanese joint ventures participation.

Mr. GORDON. This table is not surprising. I think he did a pretty good job in reflecting what has gone on.

The policy of the U.S. Government to curtail fishing on the part of the Soviet Union and continued desire to make full utilization of fishery resources that are available rather than allow them to go to waste, actually invited additional participations into the North Pacific. This reflects what the West Germans did. During the last year and a half or two we have completed negotiations with others. Norway, for example, wants to enter the fishery. Thus, we were on one hand encouraged to find additional foreign participants in these fisheries and discouraged because we felt that this would prolong the withdrawal of foreign fishing from our zone.

We are dealing with large amounts of fishery allocations, and we were forced to give substantial quantities to Japan.

We recently told the Japanese Government that they had to encourage their fishing industry to increase their imports of U.S. seafood and to participate in more joint ventures. These include both over-the-side sales as well as direct purchases of fishing products, including semiprocessed and completely processed products.

Like any industry in the United States or abroad, development does not take place immediately. We are asking the Japanese to purchase 400,000 metric tons through joint ventures in 1982. We hope the other governments will encourage their industries to participate in joint ventures. Recently I have been told that the Japanese industry intends to increase its joint ventures in 1982. Next week there will be high level discussions between the United States and Japanese officials in Washington, and we will again ask them to do better in joint ventures and also in the exchange of scientific data and technology transfer. We will apply continuous pressure on the Japanese industry to move ahead in that direction.

I am confident that the joint ventures between Japan and our fishing industry can be very profitable, although not as profitable as if the Japanese catch it themselves because of the labor cost differentials. Other governments are being encouraged to participate in similar joint venture arrangements on the east coast.

Some people express a lot of concern that this will make it difficult for shoreside processors to move in this direction. That would be a valid concern if we were not very careful but there are more and more shoreside processors who are getting involved. They are organized into joint ventures. They are making contracts with U.S. fishermen to supply the materials to the floating processing plants as well as to bring specified amounts ashore. Today several processing plants have become involved and may become part of diversified operations with a shoreside plant to handle the near shore vessels and a floating processing plant to handle the more distant water fleets.

In terms of Kenny's comment concerning industry participating in discussions with foreign governments, the National Marine Fisheries Service always encourages that. In previous years, we had active fishermen involved in the International Commissions.

In recent times the State Department has not always consulted with industry as much as they should. I hate to criticize my colleagues there, but these things are often done on very short notice. They very quickly prepare for negotiations and therefore they look upon the renewal of the GIFA's as a pro forma process. Recent history shows, however that the renewed GIFA's should be patterned after the GIFA concluded with Norway last year. It is encouraging to note that a model GIFA has been distributed and so there has been an opportunity for industry input.

Mr. PRITCHARD. Sometimes industries—does this include fishermen?

Mr. GORDON. Yes; it includes fishermen. It goes through the council's and individual's discussions.

Mr. PRITCHARD. Maybe we can do a little encouragement in the State Department to do a little better job?

Mr. GORDON. I might expand on that. We will initiate bilateral trade discussions after the GIFA's are reviewed. The GIFA's will include trade provisions indicating that. We need the industries to become involved in those discussions.

In addition we will be holding meetings with industry to try to review some of our new fisheries policies involving trade, joint ventures, and other issues. We hope these meetings will bring industry more and more into a partnership with the Government. I think it is essential that we get their views.

Mr. PRITCHARD. Were you reading that a Japanese integrated, processing company, and the office that owned the processing, also owned the fishing fleet.

Mr. GORDON. There is in article which explains that Japanese industry is very tightly controlled. There are trading companies, and fishing companies. One very important firm, TAIYO, has very close ties with the financial community. Banks offer financial assistance and watch their operation very closely. It's a much more close-knit operation than in the United States where the industry is fragmented and scattered around in the various fisheries.

Mr. PRITCHARD. This also gives them a lot of voice and leverage with the Government, doesn't it?

Mr. GORDON. That is correct.

Mr. PRITCHARD. Thank you, sir, thank you very much.

Senator GORTON. We will complete panel 3 before the noon break and come back for panel 4. I would like to ask panel 3 to please come forward at this time.

Dr. Alverson, you may proceed.

STATEMENTS OF DR. DAY ALVERSON, CHIEF OF STAFF, U.S. DELEGATION, UNITED STATES/CANADA SALMON INTERCEPTION NEGOTIATIONS; MAURICE CLARK, OF MERRILL LYNCH, WHITE WELD CAPITAL MARKETS GROUP; CLEM TILLION, CHAIRMAN, NORTH PACIFIC FISHERY MANAGEMENT COUNCIL; JAY HASTINGS, JAPAN FISHERIES ASSOCIATION; AND RAYMOND SWANSON, VICE PRESIDENT, HORIZON FISH CO.

Dr. ALVERSON. My name is Day Alverson. I am currently managing partner of the national resources. I am also chief of staff of the U.S. delegation for the United States/Canada Salmon Interception Negotiations. I would like to make a few comments on fisheries development. I do not intend to follow the text of my written testimony but may make just a few offhand comments to you. Much of what I would have said has transpired in your earlier discussions. I would therefore make a very few comments.

First, I would like to start off by saying "What's it all about?" and I think that Senator Gorton mentioned the possibility of a resource in the North Pacific that may be worth close to $1 billion. This is quite true, that if the Untied States could capitalize as fishermen harvesting their resources that are abundant in the Gulf of Alaska and in the Bering Sea, their *x* vessel value might reach $1 billion in processed types of seafoods and secondary products such as is being done in Japan today and it could reach $2 billion annually in terms of products provided in the U.S. market.

It is something in terms of value that could provide opportunities for the people of Alaska and the people of the Pacific Northwest for decades to come and unlike the renewable or the nonrenewable resources, it has an opportunity which reaches into eternity.

So there is a big potential. What is the problem?

You've heard today problems that are related to high interest rates. These are contemporary problems. They are not unique to the U.S. fishing industry but they impact on them and their opportunity to operate in a very significant manner. Rapid rise in fuel costs that have occurred over the past half a decade and a number of other problems that I call events of a natural nature also play a factor.

The collapse in the crab industry is a result of the natural decline in the abundance of crab in the Bering Sea and in the Gulf of Alaska. And on the other hand, we've had a very extensive production of salmon which has tended and will tend probably during the first half of this decade to somewhat reduce the value of salmon in the world market as a result of production in Asia and the production especially in Alaska itself.

The combination of natural events and the current situation of our economy in the United States doesn't lend itself to a very aggressive attitude on the part of development but you may be surprised that despite this that our company has a tremendous number of entrepreneurs who continue to come to it that are inter-

ested in developing latent groundfish resources in the North Pacific for the American fisherman and American processor and harvester.

It is rather interesting that you will be hearing from other gentlemen today, from the processors here. They have made these commitments at a time when it is pretty difficult to get commitments from an industry that isn't doing too well in terms of even the traditional fisheries that are there. I do think they can compete. We have made some progress and we measures them on a small scale. We talk about progress. Well, let's not forget that the increased production of salt cod and fresh cod is the result of operations in Alaska last year and this year which are two to three times the magnitude of traditional halibut fishery that you hear all the time. This is a very sharp growth pattern in a relatively short timeframe.

We've taken over the Tanner crab operations. We have one of the largest fillet productions on the west coast from Oregon, Washington, or Alaska that we've had in years and we're doing this in a very competitive time and by looking at new markets, change in the quality patterns and the delivery systems to the consumer here in the United Sates. So the interest is there.

But I would like to make a few comments. We're frequently told as an industry to go out and compete. You've probably noticed comments like this and it's rather ironic that many aspects of our fisheries are tailored to protect other sectors of industry and require then that we maximize our costs.

If you get into business, we want to protect the local ship industry, fine but that's a cost to the U.S. fisherman and to the U.S. processor. If we go to buy our webbing or our electronics, they have relatively high duties in terms of bringing them in and putting us into business. On the other hand, we tend to set forth the free trade policy as it relates to products, the fish products coming into this country particularly in the form of blocks and fillets. So it makes our position a little tenuous in having to compete with our startup costs and on the other hand competing with products which come in at very low duties.

But despite this, as I said, the interest is there. But I would suggest that you not add to our troubles particularly at this point in time in terms of those considerations by the Coast Guard to pass certain user fees on the fishing industry although I tend to not generally as an individual support the concept of Government involvement, the low interest loans or guarantee loans; I think the timing is a little bad and I think we want to reevaluate whether or not this is the time to taper off that program because if we are going to go ahead at a time when the industry is having a considerable amount of trouble in making its payments now and looking for other ways to finance, I think withdrawl of the loan guarantee program at this time would represent considerable difficulties for the industry which is struggling to stay on its feet.

To look for other ways to capitalize it and keep it moving ahead would be difficult and just a few percentage points in terms of interest can make a lot of difference. In our analysis, interest rates and the cost of money are probably one of the largest problems

that are confronting our competitive ability at the present time with fishing fleets around the world.

We're looking at competing with people in Japan and Europe that are subsidized in terms of low interest loans where interest rates may be as much as 5 percent and that is pretty competitive when one looks at ours and so I think we should look, or take a second look at that.

I've heard others and I would just second the concept of taking an aggressive attitude about accessing foreign markets. We are still faced with the fact in that in Europe and the EEC we have 15 percent duties on fish products going the other way, very little if anything coming this way, very high interest rates or quotas as going into Japan and the loads are essentially attacked. I think in some places they can take them as a part of our fish and chips policy. I think that we don't really have a two-way street in terms of free trade in terms of the fisheries products. I think you people can do much to try to put pressure in alleviating this particular situation.

So, anything that you can do to improve our access to markets abroad will be helpful. I do think you can orchestrate the fish and chips policy, as you mentioned yourself, in another way, in a more forceful manner to (1) open the markets and, (2) insure that those people who do participate live up to the agreements. People in the area at the present time who access the area have not lived up to their historic commitments that we made to either councils or to governments or their implied commitments and yet they seem to still stay there.

I think there needs to be a very careful performance evaluation in terms of the people there to insure that they do live by whatever agreements they have made.

Finally, in terms of the processor, which I feel is a very important aspect of our industry in terms of strengthening it, I do feel there are some opportunities under joint venture arrangements that can bring the processor much more directly into the picture, offshore base and at sea. These should be explored. It may require some minor variation in terms of the existing laws or the Jones-Nicholson Act but I think that there are such opportunities and we're to bring to you within the next several months, providing some specific suggestions in language that may be helpful in this respect because I think we do not want any of us to have an industry that is totally dependent on accessing foreign markets. We want a diversified market opportunity.

With that, Mr. Chairman, I think that the remainder of my remarks are fairly well outlined in my testimony, my written testimony, and I'll conclude with that.

[The statement follows:]

STATEMENT OF DR. DAYTON L. ALVERSON, NATURAL RESOURCES CONSULTANTS

Mr. Chairman, I am Dr. Dayton L. Alverson, currently the Managing Partner of Natural Resources Consultants and Chief of Staff of the U.S. Delegation for the U.S./Canada Salmon Interception Negotiations. I wish to thank you and members of your committee for the opportunity to comment on the problems confronting the U.S. fishing industry and, in particular, factors influencing U.S. development of the extensive fishery resources in the U.S. Fishery Conservation Zone.

Senator Gorton, over the past two years, Natural Resources Consultants has undertaken a number of studies regarding (1) joint venture arrangements between the

United States and foreign fishing operators, (2) U.S. processor participation in utilizing the whitefish resource adjacent to our country, and (3) anticipated patterns of growth and development for sectors of the U.S. harvesting and processing industry. These studies have generally considered the benefits associated with the MFCMA and the array of government financial assistance programs.

Although there is a great deal of rhetoric expended on the inadequacies of the MFCMA and government programs associated with fishery development, it is difficult to find solutions that are broadly supported by major elements of the fishing industry and are acceptable in terms of trade and economic policies to either of the major political parties.

There are some facts that can be summarized from our recent studies. These include:

1. Both the harvesters and processors in the Pacific Northwest are currently confronted with major economic and natural events which make profitable operation of existing fisheries difficult and expansion of the processing sector unlikely.

2. Potential changes in current government policies could aggravate and worsen the economic situation in an already stressed industry.

3. The lack of executive commitment to support the purpose and goals of the MFCMA and uncertainty about potential management actions has postponed and discouraged investment in fishery development.

4. The historical and contemporary competitive position of the U.S. fishing industry has been negatively impacted by the apparent paradox of attempting to promote free trade in fishery products while protecting other industries upon which the fishermen and processors are dependent.

5. Joint ventures, if properly structured, may offer U.S. harvestors and processors one of the few opportunities for growth over the next several years.

The fishing industry is currently in an economic squeeze resulting from high interest rates, escalating fuel prices and a softening of world markets from increased competition with other protein resources. These problems are obviously not unique to the fishing industry, but the impact on an industry that depends on large annual "pack" loans and carriers a large part of its assets in warehoused products which are dispersed throughout the year, has been much more severe.

In the Pacific Northwest and Alaska, the situation has further deteriorated as a result of abnormally large runs of salmon into both northern Japan and Alaska, which have saturated world markets and lowered retail prices. Concurrently, there has been a collapse in the sizes of crab stocks, particularly in the Bering Sea, which were the main source of income to many large boat fishermen and catcher/processors. The extent of impact on vessel owners will become more apparent this year. If alternatives such as joint ventures or other opportunities do not occur, many boat owners will be unable to meet payments.

These problems stem from economic conditions which are of a national and somewhat international character. They have been aggravated by the short term perturbations of nature. The combination of economic and natural events has placed the industry in a weak position and, for the most part, has discouraged any thoughts of expansion into groundfish.

The indication that the Administration is about to scale down or scrap the loan guarantee program is particularly disturbing, and it could not come at a more critical period with regard to the economic position of the U.S. industry. Maintenance of the traditional fisheries in the face of high interest rates and softening prices will be a challenge. The capital required for a major expansion into the bottomfish industry will be significant and financing in the absence of the loan guarantee program will be extremely difficult.

If the loan program is dismantled and the program under consideration by the U.S. Coast Guard to charge the industry for a broad range of services is put into effect, prospects for development of the bottomfish industry could be derailed and the economic position of existing fisheries could deteriorate further.

Although financing is, and will remain, a major obstacle to expansion, many of our clients are equally concerned over what they perceive to be a lack of commitment by the Executive Branch of the government to actively support the purpose and goals of the MFCMA. The Act is explicit in its support of fishery development, the production of food and promotion of efficiency in resource use. A number of actions taken by Management Councils which received at least the tacit approval of NOAA appear to have been designed to protect the status quo and to provide protection for small boat fisheries. Development is permitted as long as the existing fisheries are fully protected. Most frequently such actions have little or nothing to do with conservation but are based on the economic interests of certain sectors of the industry. If there is no real commitment to review plans and purge them of regula-

tions which promote inefficiency, then the restructuring of fisheries to make them economically competitive will be difficult.

Investors are also faced with uncertainties about the management regime in which they will have to carry out their operations. The development of fishery management plans has been painfully slow. Plans are revised and then revised again. When they are finally submitted, they are subject to an extensive review period. Before the plans are even approved by NOAA, they are subject to amendments which further delay their implementation. The entrepreneur is not quite sure where, when or under what conditions he will be able to fish, and who, if anybody, will be responsible for the day-to-day management of the resources.

The U.S. fishermen and processors are frequently told they must get out and compete for the national and world market. They are led to believe that free trade is a cornerstone of our national trade policy. The U.S. industry is, nevertheless, confronted by a paradox. Our trade policies concerned with fishery products have led to extremely low duties being imposed on frozen blocks and fillets of whitefish entering the United States. Conversely, in order to protect shipbuilding and other industries, we have demanded that Americans fishing in the U.S. FCZ build their vessels in the United States, and pay significant duties on net webbing, electronics, processing gear, etc., purchased abroad. The result is a set of laws and trade policies which maximize the cost of vessel construction and purchases of fishing gear while allowing relatively easy access by foreigners to U.S. whitefish markets. The situation is further aggravated in that access by Americans to European and Asian markets is limited by relatively high import duties, quotas, and other operational barriers.

Our contemporary fishing enterprises have had to cope with these constraints, and eliminating certain restrictions might be as harmful to some sectors of the industry as it would be helpful to others. Regardless, the competitive position of the U.S. fishing industry has been handicapped by legislation designed to protect select sectors of our industry while promoting free trade policies regarding unprocessed fishery products.

My remarks up to this point have been somewhat pessimistic, but I believe they represent a realistic appraisal of the problems confronting the Pacific Northwest and Alaska and, to some extent, the national fishing scene.

Although economic conditions have not generally been favorable in terms of development, we cannot ignore the significant advantages afforded by the MFCMA and modifications of the Act which have enhanced the position of the fishing industry. We have 1) gained management control of significant ocean areas adjacent to our country which are inhabited by large demersal and pelagic fish resources, and 2) begun to substantially rebuild resources in the northeast Pacific which, less than a decade ago, were reported to be overfished and/or decreasing in numbers. The true cod, pollock, and flounder of the Bering Sea and Gulf of Alaska are now reported to be in good condition. We are told that halibut stocks are on the increase. The passage of the MFCMA also played a major role in enabling the United States to gain better control over high seas fishing for salmon.

The U.S. industry has responded quickly to opportunities to harvest and market Tanner crabs. There is an expanding U.S. industry based on fresh, frozen and salt cod. A large U.S. factor trawler is successfully harvesting, processing, and marketing a competitive product. The production of fresh bottom-fish fillets at plants in California, Oregon and Washington is reaching an all-time high. Finally, joint venture arrangements between foreign and domestic fishermen have afforded U.S. harvesters market opportunities not otherwise available.

Many of the successes, however, may only be short term. One factor in the fastory trawler's sucess story was the acquisition at relatively low cost of a government financed vessel that was unable to make a profit in its original ventures. Current high interest rates and the cost of new vessel construction in the U.S. make it doubtful that this success could be repeated today. The expanding salt cod market has been made possible by declining cod production in the eastern Atlantic. The perturbations of nature which have created this opportunity could also cause it to end.

The rapid expansion of joint ventures has been accompanied by pleasant surprises, as well as confusion. The high productivity of the U.S. joint venture vessels surprised many foreign and domestic processors. The technical aspects of atsea transfer of catches, midwater trawling, and the handling of large catches were quickly acquired by the U.S. fishermen. Although the techniques of fishing and delivery at sea were rapidly learned, certain operating problems have plagued various joint ventures. Squabbles have arisen over contract interpretation, and financial commitments by the foreign joint venture partners were not always met. Commitments made to Management Councils and U.S. government officials in order to acquire joint venture permits were frequently not met.

The future of joint ventures and their profitability to U.S. harvesters is currently threatened by deteriorating relations between the U.S. and Communist-bloc nations and the collapse of the king crab stocks. The dismal outlook for king crab and Tanner crab has resulted in a multitude of boats suddenly looking for markets. The result will be a deterioration of the price structure to the benefit of foreign buyers and to the detriment of domestic sellers. The latter may demonstrate the importance to U.S. harvesters of having a diversity of marketing opportunities, including a strong U.S. processor involvement in the whitefish industry.

Many of the issues which I have raised are linked to the general economic condition of our country and are not fisheries issues, per se. There are, however, actions that could be taken by Congress and the Executive Branch to ease the present economic burden and improve the opportunities for fishery development. We encourage your committee to:

(1) Maintain the loan guarantee program and implement the provision to include processors in the program and to extend the Capital Construction Fund to processors.

(2) Oppose the proposed broad user fee schedule under consideration by the U.S. Coast Guard which would significantly increase the cost of operating fishing vessels, or limit its provision to select "requested" services.

(3) Aggressively seek Executive action to negotiate reduced tariffs and adjustments in quotas in order to obtain better access to foreign markets.

(4) Tighten the criteria used to approve joint ventures to include an assessment of the capacity and intent of the applicant to perform, and maintain a performance and in terms of the Fish and Chips policy.

(5) Promote joint venture opportunities and broaden the concept to facilitate profitable participation by U.S. processors.

(6) Find the means to expedite the implementation and, when necessary, the modification of management plans and insure adequate commitment to the goals and objectives of the MFCMA.

Senator GORTON. Thank you very much.

Mr. Clark, I understand you have some slides to show.

[Slides shown.]

Mr. CLARK. Senator Gorton, my name is Maurice Clark I represent Merrill Lynch White Weld Capital Markets Group. I wish to thank you for this opportunity to address some financial questions.

I think before the question of financing the fisheries can be intelligently discussed, some fundamental policy decisions emanating from the Government must be in place. Without these policies, it would be really an exercise to discuss the financing structure since the policy foundation itself is unstable.

Does the Government intend to encourage the development of domestic fisheries by American owners? If not, then anything that follows is not really worth discussing. Is financing being used as a regulatory tool? If this is so, is there not perhaps a better method of control by the direct management of the resource rather than with the secondary tool of financing.

Are the appropriate agencies willing to commit long-term assistance in developing policies regarding financing and fiscal support?

Recognition, and acceptance of the need for detailed research into fisheries stocks, cycles and related analysis provides predictable certainty that helps a lender assess the probability of successful repayment of the loan.

For example, if it is known that a particular fishery is facing a 4-year decline, would it not be easier to determine when to enter that fishery?

At this point it is appropriate that we examine the perception of the Northwest fishing industry as seen by the financial community. Of foremost concern is the very high rish encountered. The industry is capital intensive, vessel platforms are very costly and fre-

quently single-purpose, fuel expenses have dramatically increased, interest costs, not only for vessel financing but for the costs such as inventory have escalated to incredible levels.

These and other factors coupled with the unpredictable catches and markets cause discomfort with financing on a long-term basis. In my experience, no other product industry has so little control over so many facets of their business.

I mentioned earlier the cyclical nature of the fishing industry and that's the purpose of this graph. This happens to be crab. You can see the violent changes up and down. Most of the instability brought on has been moderated by the increasing reliability of the National Marine Fisheries Service research statistics that have become available.

Perhaps, however, the most important risk is encroachment into the industry by nonmarket forces, for example subsidized foreign competition, political decisions regarding the enforcement of regulations and other unquantifiable disruptions. The borrower falls into any of three categories. The first is pretty much the owner-operator; honest, hard-working and fiercely independent and one of the last of the breed of pioneer entrepreneurs. These very independent people are very often the cause of their own problems because of a lack of fundamental knowledge of business operations.

For instance, on one occasion, and this actually happended by the way, while analyzing the financial statement of a borrower we asked, "after all your liabilities, what is your net worth?" He paused and explained that he'd been badly snagged and his net was probably worth about $15,000. We asked the right question and he gave the right answer and the boat unfortunately ran between the two.

A second category could be called the passive investor-owner. These individuals generally are not in the industry and have no or limited capability to manage the vessel. The most common motivation is acquiring tax benefits. Very frequently they fail to meet commitments when the industry slows. Typically they come from the professional fields and are not particularly business oriented.

The third group is typified by the business investor-owner. Frequently they are industry related, for instance, a packer or distributor. This investor understands the industry and its business risk aspects. He analyzes and makes the investment and accepts the risks of potential losses.

The historic lender relationship with the preceeding borrowers is checkered on nonguaranteed commercial loans. It is typified relatively short terms and I stress that short-term is 7 to 10 years. Rates that are commensurate to the risk, frequently 2 to 5 percent above prevailing bank levels and requiring high collateralization. The cash-flow strains brought on by this have severely limited the ability to service debt. Further complications arose with short-term construction versus long-term takeout loans and all too often there was very little coordination between the two.

The borrower now and in the foreseeable future is in a transition period. Alternatives must be considered. Strong and frequently emotional arguments are being made for small boats, large boats, mother ships and combinations, shoreside facilities, and joint ventures. We must examine the questions. Does a perpetuation of the

current type vessel eventually decrease efficiency? Are conditions now analogous to the small inefficient farms of a 100 years ago, at the time of innovative mechanization?

Would a newer, more efficient capactity dislocate the financial structure now in place.

This type of uncertainty clouds financial capability. The major common denominators are, however, the high cost of entry and the limited specialized use of the platform or facilities.

It is difficult to convert a fishing vessel into a barge. The shoreside processing facility in Adak, Alaska, is unlikely to become a retail distribution center. When you realize that smaller vessels start at $500,000 and that there are $17 million ships in the design stage, and that these may be needed simply to compete with foreign vessels of similar existing capabilities, then the magnitude of the risk becomes apparent.

This again brings up the problems that are beyond individual control. Let us take a hypothetical case. Under current regulations, a fishery that is not fully exploited in a given year by our people can be entered and exploited by non-American harvesters. Under conditions currently possible a catch-22 situation then arises. If the processors, under foreign ownership, set a price for a catch that makes harvesting that species unprofitable, then the boats will not work. If therefore, the fishery is underutilized, cannot those same countries, represented in the processing industry, exercise their right to enter our fishery?

These possibilities almost overwhelm the ability of the private markets to develop some of our greatest marine resources. Some form of encouragement is needed that can be relied upon. The NMFS is in a position to provide that, but first examine the magnitude of Northwest fisheries.

The pie chart in figure 1 as of 1980 shows that 19 percent of the U.S. catch harvested by Americans was from the Northwest and Alaska, 92 percent of all of the foreign catch in the United States was caught in Northwest waters for a combined Northwest harvest equalling 47 percent of our nationally available production.

Comparing figure 2 to figure 1, our 19 percent volume total was worth 32 percent of the total domestic dollar of production. This indicates an emphasis on the higher value species. The foreign value percentage demonstrates their exploitation of lower priced fish, but the combined total value of the harvest from the Northwest is 41 percent of the national total.

Figure 3 shows that 35 percent of U.S. fishermen are in the Northwest while only 26 percent of the vessels are here. This is probably due to the larger vessel size.

From a marketing point of view, figure 4 showns that of the total $998 million export market, a full 69 percent was from the Northwest and Alaska for this period.

A more graphic demonstration of our lack of exploitation in underutilized groundfish is shown on this bar graph. The total current catch by U.S. vessels of the available stocks shown in white is represented by the thin black line at the bottom.

Now that we can visualize the disparity, and assuming that it would be desirable to improve our harvesting ability, we come to a solution currently available, the NMFS fishing vessel obligation

guarantee. It is an unusual program. It is emphatically not a subsidy. There is neither an artificial rate structure, nor a drain on the treasury. Even more importantly, it is self-supporting through fees received in the course of guaranteeing the private sector loan to the fisherman. Staff salaries and all administrative costs are covered by those fees. The FVOG program does not lower credit standards but enables otherwise capable operators access to long-term vessel financing.

Currently over $200 million in FVOG loans made by private lenders are outstanding. The remaining guarantee authority is approximately $650 million; however, according to Earl Coombs' report, the capital requirement for harvesting/processing vessels will approximate $2 billion in domestically underutilized fisheries.

Another $2.5 billion will be needed for shoreside facilities. These amounts merely supplant existing foreign capacity. Ironically, a serious impediment to this development has arisen. In January 1982 an administrative decision, requested by the Office of Management and Budget, was implemented limiting 1982 guarantee authority to $50 million. This barely covers current applications. Future authority is subject to further revision. This specifically contradicts committee reports on H.R. 4169 reported out of the House and Senate in 1981 that addressed the necessity of developing fisheries. The FVOG program has many benefits; why hamstring a program that is self-supporting?

There is no consistent long-term loan market without the FVOG. Alternatives are not generally available. Coupled with private capital, it provides flexibility, fixed or variable rates, longer terms at lower interest cost and thereby dramatically improves cash flow for the borrower.

The agency has its problems. It is hampered by manpower restrictions and is historically geared to smaller, simpler transactions. However, the agency has a history of responsiveness. Innovative programs that stabilize the process are constantly being implemented. The quality of the paper is improving and the problems not being addressed are mostly the result of manpower restrictions. In light of the self-supporting nature of the agency and projected capital requirements by the industry, it seems illogical to severely impair their ability to serve.

In summary, major policy decisions ratifying development must be made. If policies promoting American utilization are implemented, then pulling the necessary capital from the private sector can be accomplished with the help of the NMFS. The guarantee program would appear to meet two of President Reagan's philosophies. It draws private, not Government, funding to the market and directs emphasis on assisting private enterprise rather than subsidizing it.

Will development of the fisheries occur without this encouragement? Possibly, but definitely at a slower, more costly pace.

President Eisenhower used to demonstrate the art of leadership with a piece of string. He would put it on a table and say, "pull it and it will follow you wherever you wish. Push it and it will go nowhere at all."

No one can command the development of the fisheries, but the development can be led if you choose to do do.

Thank you.
[The statement follows:]

STATEMENT OF MAURICE CLARK

Senator Gorton, we wish to thank you for this opportunity to address the financial questions in the fishing industry.

Before the question of financing the fisheries can be intelligently addressed, some fundamental policy decisions emanating from the government must be in place. Without these policies it would be merely an exercise to build or discuss a financing structure, since the policy foundation is unstable.

1. Does the government intend to encourage the development of domestic fisheries by American owners? If not, then nothing that follows is worth discussing.

2. Is financing to be used as a regulatory tool? If so, is there not perhaps a better method of control through the direct management of the resource rather than through the secondary tool of financing?

3. Are the appropriate agencies willing to commit to long term, consistent development policy regarding finance and statistical support?

4. Recognition and acceptance of the need for detailed research into fishery stocks, cycles and related analysis provides the predictable certainty that helps a lender assess the probability of successful repayment of the loan. For example, if it is known that a particular fishery is facing a four year decline, would it not be easier to determine when to enter that fishery?

At this point it is appropriate that we examine the perception of the Northwest Fishing Industry as seen by the financial community.

The foremost concern is the very high risks encountered. The industry is capital intensive. The vessel platforms are very costly and single purpose. Fuel expense has dramatically increased. Interest costs, not only for the vessel financing, but for the processor's inventory have escalated to incredible levels. These and other factors, coupled with unpredictable catches and markets cause discomfort with financing on a long term basis. In my experience, no other "production" industry has so little control over so many facets of their business.

(Slide showing historic yields.) I mentioned earlier the cyclical nature of the fishing industry. Much of the instability brought on by this has been moderated by the increasing reliability of the N.M.F.S. research statistics now available.

Perhaps, however, the most important risk is the incursion in the industry by non-market forces; i.e., subsidized foreign competition, political decisions regarding enforcement of regulations, and other unquantifiable disruptions.

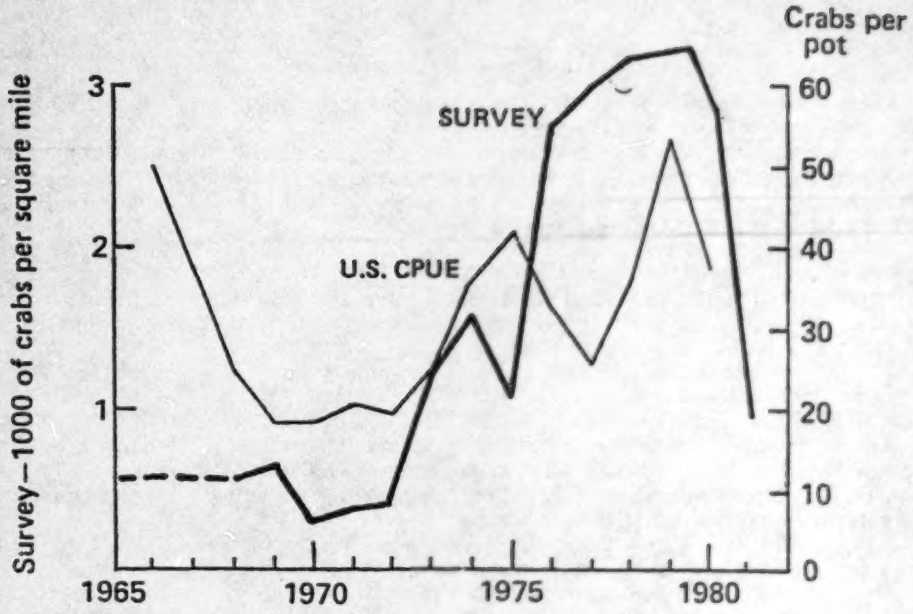
The borrower falls into any of three categories:

The first is the historic owner-operator; honest, hardworking fiercely independent and one of the last breed of pioneer entrepreneurs. These very independent people are frequently the cause of their own problems because of a lack of fundamental knowledge of business operations. For example, on one occasion, while analyzing a financial statement, a borrower was asked, "After all liabilities, what is your net worth?" He paused and explained that it had been badly snagged and was probably worth about $15,000. It was the right question and the right answer but none of it matched up.

A second category could be called the "passive investor/owner." These individuals generally are not in the industry and have no, or limited, capability to manage a vessel. The most common motivation is acquiring tax benefits. Very frequently they fail to meet commitments when the industry slows. Typically, they come from the professional fields and are not particularly business oriented.

The third group is typified by the business investor-owner. Frequently industry related, for instance a packer or distributor, this investor understands the industry and its business risk aspects. He analyzes, makes an investment and accepts the risk of potential losses.

The historic lender relationship with the preceding borrowers is checkered on non-guaranteed commercial loans. It is typified by relatively short-term (7–10 years) rates—concomitant to the risks—frequently 2 percent–5 percent above prevailing bank levels, and requiring high collateralizations. Cash flow strains brought on by this have severely limited the ability to ser ice debt. Further complications arose with the short term construction financing versus the long term takeout loan. All too often there was little coordination between the two.



See Footnote 1

Figure 1 – 1977-80 average annual domestic and foreign catches in U.S. waters

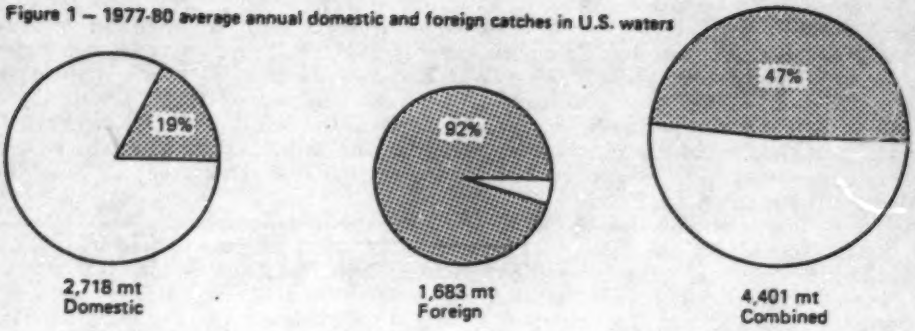


Figure 2 – Value of domestic and foreign catches in U.S. waters, 1980

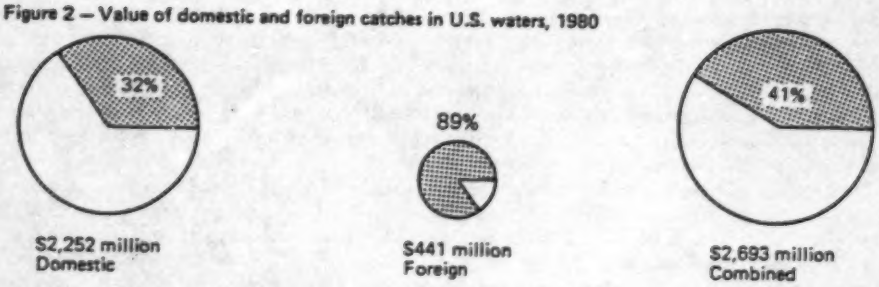


Figure 3 – U.S. fishermen and fishing craft, 1980 (estimated)

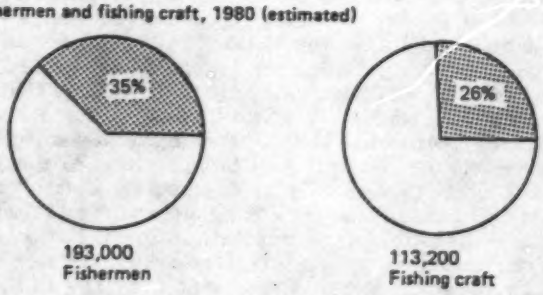


Figure 4 – Average value of marine animal product exports, 1978-80

See Footnote 1

The borrower now, and in the foreseeable future, is in a transition period. Alternatives must be considered. Strong, frequently emotional arguments are being made for small boats, large boats, mother ships and combinations, shoreside facilities and joint ventures. Does the perpetuation of the current type of vessel eventually decrease efficiency? Are conditions now analogous to the small inefficient farms of 100 years ago at the time of innovative mechanization? Would the newer more efficient capacity dislocate the financial structure now in place? This type of uncertainty clouds financing capability.

The major common denominators are, however, the high cost of entry and the limited specialized use of the platform or facility. It's difficult to convert a fishing vessel into a barge, and a shoreside processing facility in Adak, Alaska is unlikely to become a retail distribution center. When you realize that the smaller vessels start at $500 thousand and $17 million ships are in the design stage, and that these may be needed to compete with foreign vessels of similar existing capability, then the magnitude of the risk becomes apparent.

This again brings up the problems that are beyond individual control. Let us take up a hypothetical case. Under current regulations, a fishery that is not fully exploited in a given year by our people can be entered and exploited by non-American harvestors. Under conditions currently possible a "catch 22" situation then arises. If the processors, under foreign ownership, set a price for a catch that makes harvesting that species unprofitable, then the boats will not work. If, therefore, the fishery is under-utilized, cannot those same countries, represented in the processing industry, exercise their right to enter our fishery?

These possibilities almost overwhelm the ability of the private markets to develop some of our greatest marine resources. Some form of encouragement is needed that can be relied upon. The N.M.F.S. is in a position to provide that, but first examine the magnitude of Northwest Fisheries.

The pie chart [1] in Figure 1 as of 1980 shows that 19 percent of the U.S. catch harvested by Americans was from the Northwest and Alaska. Ninety-two percent of all of the foreign catch in the U.S. was caught in Northwest waters for a combined Northwest harvest equalling 47 percent of our nationally available production.

Comparing Figure 2 to Figure 1, our 19 percent volume total was worth 32 percent of the total domestic dollar of production. This indicates an emphasis on the higher value species. The foreign value percentage demonstrates their exploitation of lower priced fish, but the combined total value of the harvest from the Northwest is 41 percent of the national total.

Figure 3 shows that 35 percent of U.S. fishermen are in the Northwest while only 26 percent of the vessels are here. This is probably due to the larger vessel size.

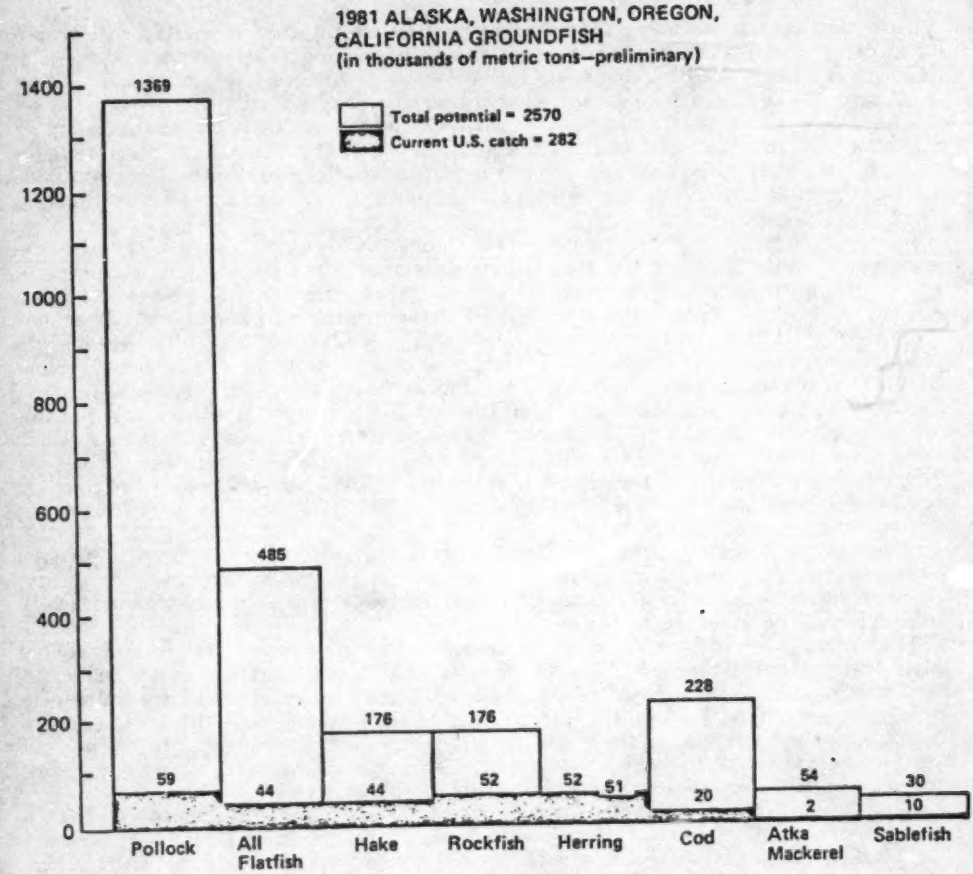
From a marketing point of view, Figure 4 shows that of the total $998 million export market, a full 69 percent was from the Northwest and Alaska for this period.

A more graphic demonstration of our lack of exploitation in under-utilized groundfish is shown on this bar graph.[2] The total current catch by U.S. vessels of the available stocks shown in white is represented by the thin black line at the bottom.

---

[1] National Marine Fisheries Service, "Northwest and Alaska Fisheries Center Report," September 1981 BOD.

[2] Coombs, Earl, "Prospectus for Development of U.S. Fisheries," May 1979.


1981 ALASKA, WASHINGTON, OREGON, CALIFORNIA GROUNDFISH
(in thousands of metric tons—preliminary)
Total potential = 2570
Current U.S. catch = 282
1400
1200
1000
800
600
400
200
0
1369
59
485
44
176
44
176
52
52
51
228
20
54
2
30
10
Pollock
All Flatfish
Hake
Rockfish
Herring
Cod
Atka Mackerel
Sablefish

Now that we can visualize the disparity, and assuming that it would be desirable to improve our harvesting ability, we come to a solution currently available—The N.M.F.S. Fishing Vessel Obligation Guarantee. It is an unusual program. It is emphatically not a subsidy. There is neither an artificial rate structure, nor a drain on the treasury. Even more importantly, it is self-supporting through fees received in the course of guaranteeing the private sector loan to the fisherman. Staff salaries and all administrative costs are covered by those fees.[3] The F.V.O.G. Program does not lower credit standards but enables otherwise capable operators access to long term vessel financing.

Currently over $200 million in F.V.O.G. loans made by private lenders are outstanding. The remaining guarantee authority is approximately $650 million; however, according to Earl Coombs' report [2] the capital requirement for harvesting/processing vessels will approximate $2 billion in domestically underutilized fisheries. Another $2½ billion will be needed for shoreside facilities. These amounts merely supplant existing foreign capacity. Ironically, a serious impediment to this development has arisen. In January 1982 an administrative decision, requested by the Office of Management and Budget (O.M.B.), was implemented limiting 1982 guarantee authority to $50 million. This barely covers current applications. Future authority is subject to further revision. This specifically contradicts Committee reports on HR 4169 [4] reported out of the House and Senate in 1981 that addressed the necessity of developing fisheries. The F.V.O.G. Program has many benefits; why hamstring a program that is self-supporting?

There is no consistent long term loan market without the F.V.O.G. Alternatives are not generally available. Coupled with private capital, it provides flexibility, fixed or variable rates, longer terms at lower interest cost and thereby dramatically improves cash flow for the borrower.

The Agency has its problems. It is hampered by manpower restrictions and is historically geared to smaller, simpler transactions. However, the Agency has a history of responsiveness. Innovative programs that stabilize the process are constantly being implemented. The quality of the paper is improving and the problems not being addressed are mostly the result of manpower restrictions. In light of the self-supporting nature of the Agency and projected capital requirements by the industry, it seems illogical to severely impair their ability to serve.

In summary, major policy decisions ratifying development must be made. If policies promoting American utilization are implemented, then pulling the necessary capital from the private sector can be accomplished with the help of the N.M.F.S. The guarantee program would appear to meet two of President Reagan's philosophies. It draws private, not government, funding to the market and directs emphasis on assisting private enterprise rather than subsidizing it. Will development of the fisheries occur without this encouragement? Possibly, but definitely at a slower, more costly pace.

President Eisenhower used to demonstrate the art of leadership with a piece of string. He would put it on a table and say, "Pull it and it will follow you wherever you wish. Push it and it will go nowhere at all." No one can command the development of the industry, but that development can be led if you choose to do so.

Thank you, again, for your interest in our viewpoint.

Senator GORTON. Thank you.

Mr. Tillion.

Mr. TILLION. My name is Clem Tillion and I am chairman of the North Pacific Fishery Management Council and also director of International Fisheries and External Affairs for the State of Alaska.

I listened a little earlier to some of the fishermen saying they would like to see fishermen on the councils. I was a fisherman for 30 years. I started out on the board of directors for the Fisherman's Association, served 18 years in the legislature and retired as president of the State Senate.

When I got involved in international fisheries negotiations by 1973 I had reached the point where it was one international negoti-

---

[3] Grable, Michael, Chief-Financial Services Division, National Marine Fisheries Service, N.O.A.A.

[4] House bill 4169, reported out of the House of Representatives, July 16, 1981; reported out of the Senate, October 30, 1981.

ation after another, and after missing two crab seasons, I sold my gear and I am no longer a commercial fisherman. My son is though and that's one of the side effects of serving on these bodies. Bart Eaton, who was high man in the crab fleet a year ago in the Bering Sea, is one of our councilmen on the North Pacific Council, but you have to keep in mind that he has to miss a lot of meetings. There is just no way that a commercial fisherman is going to make his vessel pay and still go to all the meetings that are necessary. It is just one of those drawbacks.

I'd like to touch on some highlights if you don't mind, I will leave my written testimony for you to look over.

Senator GORTON. It will be in the record.

Mr. TILLION. I just came back from the Russian desk at the State Department where I emphasized the need for at least continuation of the GIFA's with Poland and Russia. I've been to Korea and Japan within the past month to work up some sort of an agreement for additional joint ventures with them.

With the downturn in the crab industry some of the boats are not going to survive if we don't get with this. I was very pleased to hear Lee Alverson's report that all is not black. Last year in the Bering Sea 36 trawl vessels delivered an amount of fish equal to that delivered by all 150 boats from California-Washington-Oregon. So, it's not that they're not moving, it's doubling every year and I expect it to double this year, but if we do not have that Russian GIFA, we will be seriously hurt.

I expect the Japanese, and I'm not really at liberty to talk about the amounts because we're still negotiating with the five companies, but I expect their joint ventures will exceed those with the Russians this year, but the loss of the Russian one would mean that the increases that we have been able to negotiate with Japan have just held the status quo with no gain. So it is imperative that we have an Eastern bloc market. The State Department seems to be willing to give a little bit, but certainly a little push from you gentlemen would help.

As far as relief from regulations, you be we can use some. How about the Nicholson Act? Or how about when you talk about problems with king crab management and then go back to Washington and find the problem is in the paperwork proliferation act that you call the Paper Work Reduction Act. OMB last year knocked down a regulation on Tanner crab fishery because they said it paralleled the State regulation. Well, I certainly hope it does. You wouldn't want to have two sets of regulations or policies the same fishery, but they just didn't understand what they were doing. And this eats up manhours. The requirement that you have and EIS for each species instead of for the ecosystem just means that you have to turn out an inch and a half of paper every time you talk about a different species.

It all means that somebody can ask a question back there and everything comes to a stop, while the question is answered. And shipping. We are so worried about protecting the existing companies and their position in the market that we have forgotten completely about the person that is trying to move a product. If we didn't have the foreign tramp steamers to send our products to

market on there wouldn't be much fishing industry in the North Pacific.

When I say the North Pacific, I am basically talking about Alaska. New fisheries production has to come from the Bering Sea and the Gulf of Alaska. We certainly would like to see a little competition in the shipping industry. We would like to be able to find a way to move the product from Sandpoint, Alaska to Dutch Harbor, Alaska at a price that wasn't more that it would cost to go from Seattle to Dutch. We have been forced to deal with the foreigners and I don't think it's been all that bad. Some of the fishermen have asked that we do something about those joint ventures that aren't paying off the way they ought to or that we have difficulties with. I'd caution you on that one. Those are negotiations between foreign countries, Korea in this particular case, and American private industry and if Government starts getting into regulating who got a fair deal and who didn't, I think we're going to be in well over our shoes.

I went to Korea last month and that was one of my complaints to General Kim, I was told that that company was not going to be operating as we saw it last year. Eleven companies have been instructed by the Government to go into a joint venture and pick up part of the Korean operation. I don't know if it will work better. I don't expect it to be smooth. It's often not smooth when you're developing new fisheries.

As one of the first five king crab fishermen when the fishing started after World War II, my first 240,000 pounds of crab caught from a 32-foot vessel went for 8 cents a pound, so it really didn't make much money. Things are never all that smooth.

The Japanese though are moving. Our council originated the recommendations on violations to the State Department, that a nation's allocation be reduced by the amount that vessel would have caught in a year when it was convicted of a serious violation. There is a direct quid pro quo that the other units in that industry can see, that if these men or vessels commit any infraction, everybody in that industry has to pay for it.

You do have to keep fleets and concepts separate and the State Department is going to have to do those kind of negotiations. For instance, certain segments of the Japanese fishing industry have never had a violation. Other segments are very prone to violations and a blanket system of penalties makes negotiating even more difficult.

Incidentally, the council turned down a request by the Norwegians for an allocation in the Bering Sea; we did say that if they come forward with a joint venture we would be happy to consider them for an allocation. We are following the lead that Congress has set and which National Marine Fisheries is pushing, I am very pleased to say, rather well. If you don't have some fish in the market, there are no chips forthcoming.

I think I will close at this time and if you have any questions, I'll be happy to answer them for you.

[The statement follows:]

STATEMENT OF CLEM TILLION, CHAIRMAN, NORTH PACIFIC FISHERY MANAGEMENT COUNCIL

Thank you, Mr. Chairman, for this opportunity to testify before your Committee and to air my thoughts on the development of underutilized fish species in the North Pacific. I am Clement V. Tillion, Chairman of the North Pacific Fishery Management Council and Director of International Fisheries and External Affairs for Governor Hammond of Alaska. In both of those roles the primary thrust of my duties includes the development of the fishery resources being discussed today, most of which are found off Alaska with the great preponderance of them in the Bering Sea, which can potentially produce more resources than all other U.S. waters combined.

It is immediately obvious that no single obstacle stands in the way of the development we are all striving for; rather there is a multiplicity of problems that must be solved—with every likelihood that there are no short-term solutions for some of them.

The most difficult is expensive money. Heavy capital investments are required for new, and different, facilities. This includes financing for shore facilities and catcher/processors and long term investments in new processing equipment and storage facilities.

Second, and of almost equal importance, is the lack of fast, reasonably priced transportation between the fishing area and the primary distribution centers. When we are competing on a world market against similar products from many countries and profit margins are computed in fractions of cents per pound, shipping must be fast and storage held to absolute minimum.

We need better docks in many northern ports, combined with storage and handling facilities for trans-shipping fishery products.

There are no emergency or intermediate ship repair facilities within 1,200 miles of the Bering Sea capable of hauling the ships needed in those fisheries.

The United States has import tariffs to protect our net, gear, and electronics industries—but virtually none on competing fishery products.

There are very real tariff and non-tariff barriers in many countries against our exports of fishery products.

Those are not all of the problems inhibiting the development of underutilized fish species, Mr. Chairman, but they are, in my opinion, the major ones.

The question is how do we solve these complex issues:

Expensive money—some advantage is possible in allowing fishermen with Capital Construction Fund balances to use existing funds for shoreside development. A similar CCF program for the processing industry would provide some more investment capital. Neither move will really solve the problem; only substantially lower interest rates can provide the competitive parity needed by the U.S. industry to succeed against the world market for these species.

Transportation costs can be reduced through competition and by removing regulatory barriers between western Alaska and the West Coast. Protecting individual carriers at the expense of the fishing industry makes poor economic or social sense. We should look at revisions, or waivers, of some of the maritime legislation blocking progress in this area.

Docks, specifically those needed to export fish and receive needed supplies, are needed before small boat harbors and other secondary community infrastructures. These are the key to all development. The State of Alaska is spending heavily in this area, but additional funding will be necessary if rapid progress is to be made.

Cold storage facilities to hold product for shipment, combined with efficient transshipment systems and inexpensive shipping will increase the competitive edge for all segments of the U.S. industry. While these should be built and operated by industry, some help in initial financing may be desirable.

Bonded warehouses or some form of "freeport" status should be considered for a port in western Alaska. There may be advantages for the U.S. industry in that sort of arrangement.

Ship repair facilities near the fishing areas will save time and expensive fuel, critical in a fishery conducted 12 months a year. They should be built and operated by private industry, but again some help from city, state, and federal governments may be necessary to get them started.

Tariff and non-tariff obstacles continue to plague our exports, although we have made some progress in this area. I was in Japan and Korea three weeks ago with Senator Murkowski and I am able to report that the picture there is a little better. Those countries are two of our most important customers, but both still have stiff

barriers against fishery products from the United States. Continued effort is required in this area.

High import tariffs on nets, fishing gear, and electronics greatly increase costs to the U.S. fishermen. Are those tariffs really necessary any more or have they outlived their usefulness? Let's look at them again and see if some relief can't be found.

There are some immediate things that can and should be done to aid the U.S. fishing industry. While salmon are hardly an underutilized species, it looks like we may have the largest catch on record next season and a subsequent glut on the marketplace. I would like to see us arrange for a substantial sale of those "extra" salmon to eastern bloc countries. That will take them out of the normal market channels and lessen competition in our other overseas markets. We do not want to greatly expand normal market areas since there is little expectation runs will stay at this level.

In the short term we should encourage joint ventures—that is over-the-side deliveries of raw fish to foreign processors at sea. To do that we should ask the Administration to renew the Governing International Fisheries Agreements (GIFAs) with Poland and the Soviet Union. Both expire July 1 and at that time our U.S. fishermen will be put on the beach. The Marine Resources Company operations using processing ships belonging to the USSR has been the single most important market for U.S. groundfish trawlers on the West Coast. Poland, with Mrs. Paul's Kitchen, Inc., has been increasing their purchases. Many West Coast fishermen are desperate for markets and these are important ones.

We should warn all involved in joint ventures, however, that these are short term operations. We intend that the fishery for the now underutilized species to be a solely U.S. operation as soon as possible. I hope to see the last foreign processor phased out in no more than ten years—and the last foreign fishing vessel well before then.

Thank you, Senator, for letting me share these thoughts with you and the Committee. I am convinced that the United States can utilize this great resource, and soon. It requires a partnership between government, both state and federal, and industry and careful utilization of all of our resources in this era of shrinking budgets.

Senator GORTON. Thank you very much, Mr. Tillion.

Mr. Hastings.

Mr. HASTINGS. My name is Jay Hastings and I am representing the Japan Fisheries Association. I would like to make a couple brief remarks and will summarize my statement also.

I would like to direct my comments to the development of U.S. fisheries through the control of foreign fisheries under the Magnuson Fishing Conservation and Management Act. I point out in my statement that there are two major benefits to fisheries development which arise from this act.

The first benefit is that the United States now has exclusive fishery management authority to control foreign and domestic fishing to insure that the stocks of fish will be maintained at a good, healthy level. This is of benefit to the fisheries development.

The second major benefit derived from the act is the authority of the United States to allocate these resources among the participants in the fishery. The benefit here is that the U.S. fishermen have a priority right to establish what portion of the yield from a resource they will be able to take. This benefit extends not only to the fishermen, but to the industry as a whole.

Now I also pointed out in my statement that I think that there are a couple points, from the management point of view, that may not benefit the development of fisheries to the extent that we were previously anticipating. One is the expedited phase out of foreign fisheries. Basically two parts of the act could be used to expedite the phase out of foreign fisheries. One is the phaseout formula under the American Fisheries Promotion Act which I believe has

been used in about two or three fisheries. The other is the use of optimum yield.

Now in all of these cases the basic objective, as I understand it, is to try and reduce the supply of fish going into a foreign market and thereby force that foreign market in turn to purchase the fish from the U.S. industry. I believe that in the major fisheries in which this has been done, with the possible exception of Tanner crab which I haven't yet been able to look at that carefully, it does not appear this has happened as it was previously anticipated.

The major reason for this failure, I believe, is that the companies fishing these products are not the only supplier for the product in the market. Once they're phased out of the fishery itself, the marketplace in Japan or any foreign country is really going to determine whether or not that company or any other company that has supplied the market is going to come to the United States and purchase this fishery product.

I think there is simply more to fisheries development than reducing supply. I can comment on that more, but in any event, I think the use of these two provisions whereby you try to phase out foreign fisheries simply for the purpose of reducing supply to the foreign market is not really of overall benefit to the fisheries.

There's another major provision that we're concerned about and that is the use of the foreign allocation criteria to stimulate joint venture activity and the purchase of fish by foreign nations. This year one-half of each nation's allocation has been withheld to stimulate joint venture activity.

It has been my position, and I think I am speaking on behalf of the Japanese industry, that these joint venture activities of course have to be negotiated between the parties concerned. Since the fishery allocation is being withheld, that does effect or at least puts pressure upon one party to the contractural relationship and we can't help thinking that in the long term this would have some negative impact upon the ability to develop export fishery products from the United States.

I think there are going to be short-term benefits from withholding allocations. In my personal opinion, I think that you are going to see an increase this year. Now I really don't know how much this increase is going to be, but there are going to be short-term benefits here by withholding allocations. However, I think you also have to take a look at the long term and how long are you going to be able to keep withholding allocations from the Japanese and keep them increasing their activity to a certain level.

The North Pacific fishing grounds are only one of the fishing grounds of the world. The North Pacific, of course, competes with these other grounds. There may be a point in time when the Japanese will turn away from the North Pacific and purchases from U.S. fishermen to seek out the advantages of some of these other places.

I just want to point out one piece of data in support of this statement. In 1980 the Japanese had the largest landing of fish ever. So even with the advent of the 200-mile fishery laws around the world in 1975 and 1976, the Japanese offshore catches by themselves increased.

As a matter of fact, they increased their 1980 catch to 9,100,000 metric tons. According to the chart Mr. Goldsmith supplied here, this year the Japanese allocation in the North Pacific is 1,146,000 metric tons.

Now I would like to briefly comment on how I think U.S. industry can work with the Japanese industry in developing the fisheries. The Japanese have historically participated in the shoreside development of U.S. fisheries. I realize that this has been for high value species; king crab and salmon and other high value species. But finally there's going to be interest in developing shoreside facilities for bottomfish resources also. I know because I have personally participated in some projects where the Japanese expressed extreme interest in the development of shoreside facilities for underutilized species. A lot of these projects are not by the companies who have the large allocations in the fisheries zone but by other companies who do not have such large allocations and who are looking to maybe get themselves going, to keep trade going by developing relationships with shoreside processors.

So, I know that there is a lot of effort by the Japanese being put into fishery development and shoreside facilities and I am sure we are not aware of this because of the private business arrangements. The joint ventures are quite visible, of course, and this is what has been drawing our attention recently in the fisheries development.

I also encourage the U.S. industry to work closely with the Japanese industry in shoreside development. On the joint ventures, the Japanese have expressed a longtime interest in joint venture fisheries. But they don't want to get caught up in a domestic dispute between the fishermen and the processor.

The Japanese have always had strong ties with the U.S. processors, and on one side they're getting pressure from the processors to direct their efforts toward processing and on the other side they are under pressure to direct their efforts toward joint venture fishing.

But again, the Japanese will be interested in joint ventures. I know they will. I know they will expand them and they want to expand them to a steady operation, a reliable operation and a stable operation with a long term type relationship.

In conclusion, I would also, well—Japan is the largest foreign fishery market for the United States. Right now the United States has a balance of trade surplus with that market. And the deficit, from my understanding, is mostly in tuna that we import from Japan, simply because our tuna fleet itself is unable to supply our market. Again I would like to check that out, but that's my understanding where our deficit lies.

I think the best way to maintain that market is through full cooperation with the Japanese. I know that these two industries can work together.

Thank you.

[The statement follows:]

STATEMENT OF JAY D. HASTINGS, REPRESENTING THE JAPAN FISHERIES ASSOCIATION

Mr. Chairman and members of the committee, my name is Jay D. Hastings. I am an attorney in Seattle representing the Japan Fisheries Association. I have been working with the Japanese fishermen and the management of their fisheries within

the 200-mile fishery conservation zone since November of 1976. Today I would like to comment first upon the progress of fisheries development through the management of foreign fisheries within the conservation zone. I will then briefly highlight some of the contributions the Japanese fishing industry is making to assist the domestic industry in its development efforts and conclude with a few suggestions for additional steps which might be taken to increase utilization and export markets.

The management of foreign fisheries under the Magnuson Fishery Conservation and Management Act (MFCMA) has benefited the development of underutilized species by the United States industry in many ways. One of the major benefits is the grant of exclusive authority to manage foreign fisheries for the conservation of bottomfish resources. Upon implementation of the MFCMA, immediate action was taken by the Secretary of Commerce to reduce and control foreign fishing effort. Resources depleted from overfishing are now being rebuilt while other fish stocks are being maintained at healthy levels. These management measures will guarantee the continued availability of healthy fish stocks of underutilized species to domestic fishermen during the development stages of the fishery.

Fisheries development is further benefited under the MFCMA by the authority to determine the amount of fish which is surplus to the needs of the United States industry, if any, and can be made available for foreign fishing. Domestic fishermen and processors are given the priority right to establish and reserve for their exclusive use that portion of the optimum yield from a fishery they will be able to harvest and utilize on an annual basis. As a supplement to the amount set aside for domestic use, an additional amount of fish is generally held in reserve to provide for any unanticipated expansion in the domestic fishery. Fish can be immediately transferred from the reserve to domestic use should the need arise. Once the estimated domestic harvest and reserve have been set aside from the optimum yield, only the remainder, if any, can be made available for foreign fishing.

The authority to set aside and reserve fish for the exclusive use of the United States industry insures that domestic fishermen will always have available adequate quantities of healthy fishery resources for their development efforts. Domestic fishermen no longer have to compete with large foreign fleets for fishery resources on an equal access basis.

In other ways, however, I do not believe the exercise of management authority over foreign fisheries has benefited the development of underutilized species. One example is the expedited phaseout of foreign fishing. A few traditional foreign fisheries have been phased out as a means to develop export markets for those underutilized species. Two separate provisions of the MFCMA, the concept of optimum yield and the new phaseout formula under the American Fisheries Promotion Act, have been employed to achieve this goal. These provisions have been used to either reduce or eliminate a source of supply to a foreign market in order to force that market to turn to alternative sources including the United States harvested product.

I do not believe an expedited phaseout of a foreign fishery will serve the long-range development goals for underutilized species. Supply is only one of a number of equally important factors to be considered in the development formula. For example, by cutting off a previously established and consistent source of supply from the United States fishery zone, the resulting void in the market will invite competition from alternative sources or substitute products. If the United States product is currently not price competitive with these other products, the market could be lost and very difficult to reestablish even when the domestic product becomes price competitive.

Finally, I do not believe the withholding of foreign allocations to stimulate increased trade in underutilized species is in the long-range interest of United States fisheries development. As early as 1978, the Department of Commerce began to link foreign allocations with trade development under a policy commonly referred to as "Fish and Chips diplomacy". Recently, however, foreign allocations under this policy have been withheld in an effort to stimulate the expansion of joint venture fisheries by foreign fishermen for underutilized species. Use of the foreign allocation criteria in this manner which bears pressure upon one party during contractual negotiations can easily lead to problems in the commercial relationship. The parties to a joint venture business relationship must be able to negotiate and contract as equals according to their own independent business judgment within an environment free from any outside pressure.

In concluding my comments on the progress of fisheries development through the mangement authority over foreign fisheries, I believe there are practical limitations upon the benefits to be gained from the regulatory process. Other alternatives to develop underutilized species must also be explored. One alternative is through a

continued cooperative working relationship with the Japanese and their interests in fisheries development.

Since I first began working with the Japanese they have expressed a strong interest in the development of underutilized species by the United States industry and a willingness to work with the domestic industry in achieving this goal. There are a number of ways in which the United States industry can work with the Japanese industry in developing fishery resources. One way is through private business arrangements with Japanese fishing companies. I am personally aware of a number of private business arrangements, one in which I was directly involved, whereby Japanese fishing companies and fishermen have assisted United States processors and fishermen in their efforts to develop underutilized species. These projects have included economic feasibility studies, test fishery operations, financial advancements, and test marketing programs. In each of these projects, the United States companies and vessels involved have been under the complete ownership and control of United States citizens. I am sure there are other business arrangements of a private nature between Japanese and Americans contributing to the development of bottomfish resources.

Joint venture fisheries with the Japanese fishermen will also continue to contribute to fisheries development. During 1981 two major Japanese fishing companies, Taiyo Fisheries Company and Nippon Suisan, began their first high seas joint venture operations off Alaska for a total of 15,000 metric tons of bottom fish. Both of these joint venture operations were conducted smoothly without causing any problems for United States fishermen. A group of Japanese longline fishermen also conducted a joint venture operation with Western Alaskan fishermen to provide them with a market for their herring fishery which has been unavailable to them in the past. Off the Atlantic coast, the Japanese conducted a similar high seas joint venture operation for squid.

During 1982 four independent Japanese companies will participate in high seas joint venture operations. Kyokuyo Fisheries Company and Hoko Fisheries Company will join Taiyo and Nippon Suisan resulting in a substantial increase in the purchase of bottom fish from domestic fishermen. We are not yet certain if the joint venture for herring will be conducted.

We anticipate that these Japanese joint venture operations will continue to develop into long-term and stable commercial enterprizes based upon the independent business decisions of the contracting parties and the future attitude of the United States business community towards these operations. The Japanese industry does not want to become involved in a domestic controversy over the value of joint venture operations to fisheries development over the long term.

Finally, I would strongly urge the United States industry to become better acquainted with Japanese business practices in its efforts to develop foreign and domestic markets for underutilized species. As compared to the development of markets for highly values species such as salmon and crab, I believe market development for underutilized species is going to require a greater concentration of energy and resources by the United States industry. However, the Japanese industry will extend its full cooperation to this end.

These suggestions include only a few of the many steps which can be considered to further the development of underutilized species by the United States industry. I would only hope that in taking these steps the United States and the Japanese industries will be able to work together in achieving United States fishery development goals. Thank you very much for the opportunity to express my views before your Committee. I will try to respond to any questions either now or by written correspondence.

Senator GORTON. Thank you, Mr. Hastings.

Mr. Swanson.

Mr. SWANSON. Senator Gorton, my name is Raymond Swanson. I am the vice president of Horizon Fish Co. with operations in the States of California and Washington and a principal of Westward Trawlers, Inc., a corporation established by Horizon and Steuart Fisheries of Everett, Wash., to participate jointly in the development of underutilized species.

My own personal experience with efforts to develop underutilized species is substantial. From 1976 to 1978. I worked almost full-time developing and operating a shore-based processing operation at Eureka, Calif., targeting of Pacific whiting.

For reasons which have been well documented elsewhere, we could not achieve economic viability for that operation and it was suspended in 1978.

Other shore-based Pacific whiting operations on the California and Oregon coasts have had similar outcomes.

The Horizon Co.'s largest company boat, an F/V *California Horizon,* was built early in 1978 in anticipation of a fishery for pollock in the Gulf of Alaska, delivering to a shore-based processing operation being built by New England Fish Co. on Kodiak Island, but NEFCO aborted that project before the vessesl could arrive in Kodiak to start fishing, long before NEFCO's bankruptcy.

Subsequently the F/V *California Horizon* delivered fish at sea to Soviet processing ships of Marine Resources Co. in joint ventures; pollock in the Gulf of Alaska in 1979 and whiting off the Pacific coast in 1979 and 1981.

Steuart Fisheries boats delivered pollock at sea in the Gulf of Alaska during 1981 in joint ventures with processing ships from Japan, Poland, and South Korea.

Accordingly, the involvement of Steuart and Horizon with underutilized species, both as boatowners and as domestic processors, has been through joint ventures with foreign firms with whom we have contracted to deliver fish for processing. As described earlier, Horizon and Steuart have recently joined forces in Westward Trawlers, Inc. , and have contracted with a major Japanese fishing company. Taiyo Fisheries Co., Ltd., for at-sea delivery of Alaskan pollock to Japanese factory-trawlers during 1982 for processing into Surimi.

The fishery commenced on January 29 in Shelikof Straits with two U.S. catcher boats, the F/V *Half Moon Bay* and the F/V *California Horizon.* The fishery is off to an excellent start and we hope to expand both the contracted quantity of fish and the number of U.S. boats involved.

It should be apparent that we, as domestic processors, do not share the opposition to joint ventures that is characteristic of many of our competitor processing companies. We see joint ventures as an essential steppingstone to full domestic utilization of the vast resources in the Pacific basin now available to us pursuant to the Magnuson Fisheries Conservation and Management Act of 1976.

Our industry needs joint ventures now, not only for the economic viability of the large, modern U.S. stern-trawlers that have been built in recent years, but also so we can learn, firsthand, of the sizes, behavior, and concentrations of the underutilized species and the processing, care, handling, and marketing of the resultant production.

We are pleased therefore with the growing acceptance and support of joint ventures, both in Government and in the business community. We are greatly concerned, however, that joint ventures can be expanded too rapidly, without wisdom, planning, and viable economic foundations.

In the 5½ year since passage of the MFCMA, we have seen numerous instances of booms followed by busts in the fisheries of the Pacific basin. This has been particularly true where export markets are involved. I refer specifically to fisheries for black cod, salmon, herring, roe, and king and Tanner crab. In each of these fisheries cited, a gold rush fever developed, prices and landing rose

to levels far in excess of what markets could sustain, resources suffered, markets collapsed, and domestic fishermen and processors alike have found themselves at the brink of bankruptcy and beyond.

Through major legislation is almost inevitably somewhat disruptive to orderly markets, this is not to imply that the cause of these booms and busts lies at the door of the MFCMA. Rather, the root causes stem from a failure to accompany and implement the MFCMA with wise and orderly planning.

Great focus and emphasis is evident recently on expansion of joint ventures on Alaskan pollock. We quite naturally endorse such expansion but with the caution that, this time, it must be wise and orderly.

The size and strength of the pollock resource are such that its drastic depletion is not a probable consequence of expansion of joint ventures. But, what of the markets for this species? Like black cod and herring roe, primary markets for pollock products are foreign. Indeed there are domestic markets for pollock block production, but current domestic costs of shore-based pollock block processing do not indicate ready access to those markets. Would domestic block markets open up if we close all foreign and joint ventures fishing on pollock and produce pollock block onshore for domestic markets with quality and prices that suit domestic fishermen and processors? The answer is obviously no.

Domestic users would immediately seek substitute block production, South American and South African whiting, European cod, Asian pollock, et cetera. We have learned from OPEC that benefits to cartels are short-lived; that the booms are inevitably followed by busts.

What of the foreign markets for Alaskan pollock? The Japanese surimi market is the principal foreign market. In 1980, Japan's production of surimi was 288,900 metric tons. Though this amount was down 2 percent from the prior year, the 1980 production required nearly 1.1 million tons of round pollock. But, such large numbers do not mean that the Japanese demand is not sensitive to the cost of the raw material. Foreign processors buying pollock in joint ventures at this very moment in the Gulf of Alaska are paying contract prices for food grade pollock ranging from about 5 cents to 6.5 cents.

Are these prices competitive with these foreigners own costs of harvesting pollock under their TALFF allocations? If not, and if the foreigners are forced to buy more and more fish from joint ventures at these and/or higher prices, will they be able to maintain the current size of their domestic (surimi) and export (block) markets?

The political climate, the current support of the Department of State and the immediate need of the foreigners to preserve their TALFF's are such that our domestic fishing industry, in the short run, can almost dictate the price at which foreigners buy from joint ventures, but what of the long run?

This is the basis for our concern that expansion of joint ventures be orderly, with a solid commercial basis and profitability for both sides. It will take time and research and experience by both the parties to the joint ventures and their respective governments to

determine "optimum yields," to borrow a phrase from the management councils, for joint venture fisheries.

The Federal Government has and should remain independent of price discussions for joint ventures, prices should be left to the marketplace. But that marketplace should not be distorted by the Federal Government with early imposition on foreigners of substantial and unreasonable requirements that they buy through joint ventures.

Joint ventures cannot be viewed solely as an immediate salvation for certain distressed U.S. boats and fleets. If they are so viewed, the boom/bust syndrome of Pacific fisheries will continue.

Rather, perhaps for the first time, the Federal Government must foster a climate in which joint ventures are expanded in a manner that will provide what is truly needed: One, a stable, year-to-year commercial fishery for U.S. fishing vessels in the North Pacific and, two, a steppingstone toward the day that the pollock and whiting resources in the FCMA are utilized by domestic fishermen and processors.

On the latter point, it is our opinion, based on our own experience with these resources as shore-based processors, that the greatest likelihood of success with these species will be found with at-sea processing. The costs and risks of new construction of U.S.-flag factory-trawlers like the *Arctic Trawler,* are prohibitive.

At the same time, however, there is a dramatic world surplus of factory trawlers. European fishing ports are congested with idle factory trawlers, and they are being sold at fractions of their replacement costs. The logical remedy to these two circumstances would be to allow U.S. firms to acquire and use these vessels, even on an interim/experimental basis, as another steppingstone toward full domestic utilization of our fisheries resources.

To quote Maritime Administrator Adm. Harold E. Shear in a speech given in November of 1981:

> Whether we like it or not, a number of modern U.S.-flag ships are going to be built abroad. The law permits it, a number of companies are anxious to do it, and we are going to get some fine, new, competitive ships via this path. Unfortunately, this is not going to help U.S. yards a bit, but it is going to start us on the path of rebuilding the Maritime industry and hopefully in the years ahead we can achieve a spillover for American shipbuilders.

We believe that the same rationale applies to the use by American fisheries companies of foreign-built factory trawlers. We hope that this committee can commission a serious and comprehensive investigation into this alternative, and see that the required leislation is given every favorable consideration.

Senator GORTON. Thank you.

Perhaps I'll ask you the first question. In connection with your last point, what effect would using foreign factory vessels have on our own domestic shipbuilding industry?

Mr. SWANSON. That is a difficult question. Of course it is going to have an effect. But the cost for an onshore processor or people involved in the fishing industry to go to a shipbuilder in the United States to build a vessel of the magnitude necessary to develop these resources, as I stated in my statement, would be prohibitive.

Senator GORTON. You are suggesting that there would not be any impact, because these vessels are not going to be built in the United States anyway?

Mr. SWANSON. Yes.

Senator GORTON. Dr. Alverson, if you could design from scratch a management regime for underutilized species, what would that regime be?

Dr. ALVERSON. Are you talking within the context of the councils?

Senator GORTON. Yes.

Dr. ALVERSON. I suspect from the point of view of most of the people that we're dealing with, some assurance that any management we see is going to have some continuity. I think there is a great fear on the part of a lot of entrepreneurs that come to us with quetions of if we finance five factory-trawlers, what assurance is there that we are not imposing certain regulations for them to use which would largely make those inefficient.

I think that the council, under people like Clem, have to provide some reasonable assurance that there is going to be a continuity of management regime over time. The problems that face the council are as Clem has mentioned, that it has been very difficult to get a plan into place so if it takes 18 months to 2 years to get a plan into place, and an entrepreneur is looking at a particular investment pattern, he is not likely to make it until he feels there is some assurance that that plan is in place and he knows who's going to regulate it and the likely continuity of the regime that's in place.

That is hard to commit to, Senator Gorton, because you have a lot of special interest groups that are looking at their current position as these are being developed. And although you talk here about development, let us not ignore the fact that many of those who are here now, the small halibut fishermen and the small black cod fishermen to a certain extent fear that development. They fear that it is competitive with their particular interest and they will be on the council requesting regulations that would inhibit fisheries development.

We have people that are looking at investments that are doing over $150 million and their main question to us is "What assurance do we have that that particular management scheme is likely to have any continuity in time?"

Will be in the position that the salmon fishermen who go to the State legislature, and I saw something that Clem handed me that would outlaw all foreign fishing and will they be suggesting that we do away with the growing trawl fleet because they take quantities of halibut or quantities of salmon during the development. That's really a concern to developers.

Senator GORTON. Mr. Tillion.

Mr. TILLION. Right now we have tried to tell these developing fisheries that there is going to be a hands-off policy, as long as the foreign fleets are harvesting, we do not intend to restrict the Americans but there will come a time when they will have restrictions. When their catch of immature halibut goes say over one-half of 1 percent of their gross catch, then we have to do something about restricting certain grounds or they'll destroy the halibut industry.

We've got socioeconomic restrictions. Just how wide open do you leave the herring fishery? When you have Eskimo residents as on Nelson Island who have an annual income of $1,000 and are dependent on this resource for food, can you allow a large commercial fishery.

We have trouble offering stability. But, someone investing in a long-term project has to be fairly sure that we will not allow a foreign fishery that will totally destroy that which he's organizing to fish. I think it's going to take care of itself but there is no way that we can tell you it's not going to be without friction.

Now, we're being criticized by a segment of the fleet here in Seattle about our treatment of the king crab resource. At the same time I have a resolution here from the State of Alaska condemning the council for not paying enough attention to the needs of Alaska residents. I guess we succeeded in getting both sides mad at us so the job might not be too bad.

Senator GORTON. Mr. Clark, you emphasized very strongly in your presentation the fundamental necessity of loan guarantees for capital investment. You didn't mention, or I didn't hear you mention, the impact, if any, of last year's tax cut bill, particularly the provisions allowing for very rapid depreciation of capital assets. Have those tax changes had any positive impact in this area, or is this an industry which needs something which is directed precisely at this industry?

Mr. CLARK. I think the impact of the tax benefit transactions, the leases over and above a period of time could have an impact on this obviously because of the size of the vessels are getting to be such, and the costs are getting to be such that it could moderate the impact of financing. But that is a program that is currently subdued and largely dominated by the credit-worthy types of industries and, sir, this is not a credit-worthy industry under certain circumstances so it's a long-term thing, if any.

Senator GORTON. Dr. Alverson, what proportion of the fish caught in our FCZ are coming back into the United States as imports?

Dr. ALVERSON. From the Pacific Northwest, there's about 30,000 tons, blocks that are imported into the United States which if you go back to roundfish, is about 150,000 tons of roundfish out of a total of about 1½ to 2 million tons of fish that are taken, so it is a relatively small amount.

The pollock and most of the roundfish utilized, caught by foreigners in the Northwest Pacific are used in Asia, about 97 percent of the total pollock market lies in Asia at the present time.

Senator GORTON. Mr. Swanson, do you think that the Japanese joint ventures that you described are moneymaking operations for the Japanese?

Mr. SWANSON. Will you repeat the question?

Senator GORTON. Are the joint ventures you described moneymaking operations for the Japanese?

Mr. SWANSON. At this particular time, or in the past or in the future? The idea, I guess, is to form joint ventures from the favorable standpoint of both U.S. and Japanese participation. This is to develop it through contractual relationships and to make sure that

it is profitable on both sides. Whether they are or are not making money, I really cannot answer that question.

Senator GORTON. Mr. Hastings, would you like to comment?

Mr. HASTINGS. I really don't know if they are making any profit. They had a loss last year. Of course, their methods are different than ours. They may have lost money but I would assume that they are going to be much better this year at making money or breaking even. It is hard to say. I think we will find out after the fishing season is over of course.

Mr. PRITCHARD. I'd like to have Lee comment on that.

Dr. ALVERSON. Senator Gorton, we've completed an analysis from the processing industry and they'll probably be commenting on it but I would just say briefly that our very careful evaluation of this suggests that the cost of buying fish over-the-side from U.S. fishermen was somewhat cheaper than catching it themselves for the Japanese. I won't go into the details, but that is suggesting that if they lost money, they lost it because the surimi market in Japan was generally bad but not because of the purchase over-the-side from the American fishermen.

Mr. PRITCHARD. You're talking about picking up processing ships on the world market. What all do we have to do to make these ships viable? Are they ready to go? You said they were available. You're shaking your head.

Mr. TILLION. The thing is, you really have to visit England and see them sitting there at the breaker dock, being cut up for scrap, to see that there is a huge supply of vessels that became surplus when the 200-mile limit took effect. They are available at the cost of scrap.

Mr. PRITCHARD. Well, I guess what I'm saying is are these viable as they sit or do they have to have a certain amount of work done on them?

Mr. TILLION. They have to have some work, very little. The cost would be very small. There would be an impact on domestic shipbuilding industry. You can't say that there wouldn't be, but they are available. The only reason the *Arctic Trawler* is making it, and I hope I haven't rubbed any fur the wrong way, is the fact that the United States lost its shirt on building a trawler and it was sold literally at what it would sell for scrap.

So it was competitive. If they have another source of these competitive machines, we will be competitive. You will have to evaluate what that does to the shipbuilding industry the same as I feel my job as council chairman is to see that the market is available to the American fishermen.

I realize the problems are going to be different. The gentleman sitting next to me who knows this might cause a disruption. Those are just some of the dichotomies we're going to have.

Mr. PRITCHARD. I want to get back to this point, it is possible today, or in the foreseeable next 4 to 5 years, for us to build processing ships in our American shipyards and be viable out there economically?

Dr. ALVERSON. We don't think so. Right now, the current interest rate you're talking is $16 to $20 million at a very high interest rate. Vis-a-vis, purchasing those boats and refurbishing would be about $7 billion; you're talking about a tremendous difference if

you access them from abroad, vis-a-vis to build them and pay indebtedness in terms of the current interest rates on boats here in this country.

So, I think it is very, very marginal whether they could ever make a profit at the current costs of construction and interest rates

Mr. PRITCHARD. If that's the case, then it's not an affect on the shipyard. The perception which the shipyards carry is that it's going to hurt them.

Mr. TILLION. There's going to be some affect because you have an American industry that has adjusted with the equipment they have that will be put at a disadvantage when it comes in. You can't say that they won't have some impact because right now your yards are building smaller vessels, working with or through other arrangements that require the market to stay a little more stable.

When you bring in a bunch of foreign processors, you're going to have an impact. It might very well be an impact that is worth paying for, for what you get.

Mr. PRITCHARD. Is it possible maybe to not bring in a batch but to bring in some so the disruption isn't total disruption? Couldn't you arrive at some inbetween position that is not going to turn interest groups onto the ceiling?

Mr. TILLION. Maybe a 1-year waiver and it's shut forever.

Mr. PRITCHARD. I don't think that answers the question.

Mr. TILLION. I'm glad that's something you have to make a decision on.

Mr. PRITCHARD. If we're going to have processing with processing ships, it seems we've got to face up to it. If we can't build them, well, we'd better go out and buy them while they're on the market. It seems to me this is a golden opportunity.

Mr. TILLION. We're going to have another disruption that we can see right now is coming and that is that we're going to put everything into joint ventures for the next several years. I'm not sure how long it will take until we have completely closed out the foreign fishing in our FCZ, or almost totally, and then we can start paring the foreign joint ventures out to make it work for our own domestic operation.

This will mean some vessels that were built to fish in joint-venture operations will be specialized, not necessarily capable of processing onboard or carrying fish easily and therefore, 10 years from now I would say you're going to have a major dislocation as we push out joint ventures. To me that's just part of the industry.

The No. 1 thing that's hurting us right now is the interest rates; transportation is No. 2 and interest is No. 1.

Mr. PRITCHARD. In that case, you're really no different than the rest of the American economy. You have a lot of company.

Mr. TILLION. The thing that's so sad about the American fishing industry though is, take the canned salmon industry for instance, that must put up the whole pack in a short period of time and then hold it through the whole year while it is sold off; with the 20 percent interest that many of them are faced with it means that any chance of a profit has gone to the bank. Normally a cannery never made over 15 percent profit.

If you gave the canning industry the fish free, and they had to pay for the cans and the storage and the financing for the rest of the year, they'd still be in trouble.

Mr. PRITCHARD. Do you agree with that, Dr. Alverson?

Dr. ALVERSON. I must admit I didn't hear all of what he said, but I was thinking about another question that you had asked.

I think it is quite true that in this country at the present time that the very high interest rates should be supported by low-interest loans from abroad and they make it very difficult for our industry to compete, either shoreside or at sea in terms of developing the fisheries in the Bering Sea.

In regard to your question regarding the Nicholson-Jones Act, I think you should not ignore that there are some impacts, Joel. There are certain people who have made investments that suddenly would find their investment depreciated by the fact that somebody else was accessing boats at a much cheaper cost, brought in and competing with them. I think the American fishing industry would probably be a lot better off if it hadn't had those because I think their ability to access these vessels would allow this industry to grow very rapidly at the present time because those boats are available and they're surplus on the world market and they're excellent boats with probably another 20 years life in them and they can be converted and made into vessels that process these species.

Senator GORTON. Thank you all very much.

Mr. HASTINGS. May I make one more statement, sir, with regard to Dr. Alverson's statement, that the comparative price paid to U.S. fishermen as opposed to the Japanese fishermen in the Japanese joint venture is not the only cost associated with the joint-venture activity from the Japanese point of view.

There are other costs associated with that that go into the management decision of the company. The Japanese companies have a lot of capital invested in these fisheries and employment, they employ a lot of people.

Mr. PRITCHARD. Yes, they have a lot at stake in the fishery boat and people there and all the rest of it, and the structure they're maintaining, but that's really quite a bit different on whether it's cheaper or the price is right.

Senator GORTON. Thank you.

One of the panel members from panel IV has, unfortunately had to leave, due to time constraints.

If the other four members of panel IV would prefer to come up and testify now, rather than in the afternoon, Congressman Pritchard and I will be happy to listen to them at this time.

Mr. Pedersen, you may proceed.

STATEMENTS OF DARRYL K. PEDERSEN, PRESIDENT, SEAWEST INDUSTRIES; CHUCK BUNDRANT, PRESIDENT, TRIDENT SEAFOODS CORP.; BOB BOROUGHS, MARKETING DIRECTOR, SWIFTSURE FISHERIES; AND RONALD JENSEN, SENIOR VICE PRESIDENT AND GENERAL MANAGER OF SEAFOODS, CASTLE & COOKE

Mr. PEDERSEN. Mr. Chairman, my name is Darryl K. Pedersen, president of the Seawest Industries of Edmonds, Wash.

Seawest is an independent domestic company principally involved in the production, manufacturing, and marketing of frozen seafood products originating from Alaska and the Pacific Northwest.

We own and operate fixed shore facilities at the village of Akutan in Alaska, and at Bellingham, Wash., and a mobile processing ship, the MV *Akutan.*

We are involved as a managing partner in the 124-foot fishing vessel *Aleutian Mistress* which is the recipient of Saltonstall-Kennedy funding through the Alaska Fisheries Development Foundation's automated longline demonstration project. This project currently constitutes our principle thrust into a vertically integrated development of underutilized fisheries.

As part of my discussion today, I thought it would be helpful to this committee to provide you some of the background and progress and problems associated with this particular project.

The consideration of the conversion of a modern, multipurpose crab fishing vessel, such as the *Aleutian Mistress* into a successful bottomfishing vessel must address the contributions of each sector of the industry, not just certain of its components. For example, many existing crab vessels can be converted to very efficient trawlers. And then what?

Although you have the ability to catch large volumes of assorted species of fish, the question remains, what are you going to do with them. The only current practical answer to that question, which exists only to a limited number of vessels, is to tow their net alongside a foreign processing vessel and change the cargo, the so-called joint venture. This is maybe OK for the fishermen, great for the foreign processor, but certainly of no benefit to the American processor/marketer and certainly of no great lasting benefit to the American consumer.

There are of course several ways to circumvent this dilemma: The first option, bring the large volume of fish aboard the fishing vessel and transport under refrigerated conditions to a shore plant or U.S. processing vessel with the processing capacity to handle the catch. And guess what? There aren't any. True, a few enterprising firms are attempting to change that, and for certain, there will be plants built in due course, provided there is economic viability.

The second option, process on board the fishing vessel. To fully appreciate the meaning of that, visualize, if you will, this room piled above our heads in fish. Then visualize processing and storing that volume of fish each day on a 100- to 125-foot vessel with a crew capacity of six or eight people, a truly difficult task.

This is not totally not impossible on a reduced scale as is evidenced by some of the progress on some of the vessels which are now salting cod on board, but a difficult task at best, for anything other than cod, or for other than the few existing vessels in the 150- to 300-foot class.

The third option, and the one opted for the *Aleutian Mistress,* was a compromise situation which would be to fish with a more selective type of gear and partially process and freeze at sea and send that product to a shore plant for final processing.

The *Aleutian Mistress* project was therefore an approach that recognized that, first, there is not adequate American bottomfish

processing capacity currently existing in Alaska, second, that most of the fishing vessels are not large enough to fully process onboard, and third, that lower volume, but more selective fishing capacity might be able to generate a product of sufficient quality to generate the high values per pound necessary to financially support such a vessel.

To highly summarize, what began as a fishing demonstration project simply could not be accomplished without undertaking the full spectrum of the program, that is: To modify an existing vessel to fish and process at sea; install, perfect, and learn to operate a sophisticated and unproven fishing system; select and install onboard processing equipment; develop onboard processing techniques; develop shoreside secondary processing techniques; resolve packaging and distribution requirements; create market acceptance and demand for the final product.

Again, this type of fisheries development only works when all aspects of the project from fishing to marketing are considered.

Essentially every one of the above requirements have at one time or another appeared to us to be virtually insurmountable, and yet most have been eventually overcome, but unfortunately with considerable expenditure of time and capital.

The finally remaining question with this particular project is, is it a commercially viable alternative use of this type of vessel?

The true answer is that I just don't know. We've been at this for a limited period of time but we are optimistic that it may be a viable option.

The cod stocks are there. The vessels perform well, the fishing system works adequately. Fishing and processing problems are being overcome. Product quality is excellent and market acceptance has been good. Vessel versatility has been retained and it is true, revenue is marginal.

I believe this project typifies the historic abilities of the fishing industry in the North Pacific. Show us an economic incentive and the technological problems will be the easiest to overcome.

Without an economic incentive or opportunity, development of necessary technology will be restrained. In this case the project could simply not have been implemented without outside financial assistance; in this case Saltonstall-Kennedy funds.

We, along with the rest of our industry, however, are not trapped in a situation where the players in our international game are not all using the same rule book.

The value of our underdeveloped species is being largely determined by our foreign competitors. By the use of subsidized and/or fully amortized equipment, benefiting from tariff protection and trade barriers and by fishing largely unrestrained in U.S. waters, our economic incentives are being inhibited.

Why, Mr. Chairman, should a Japanese longliner be permitted to fish alongside of our American longliner, fishing American stocks of Pacific cod when we are totally excluded from selling the same identical product to the same market by a very complicated and almost uninterpretable set of trade barriers in Japan?

This is especially galling when their very presence preempts us from some of the best fishing grounds.

Why, Mr. Chairman, must we wait until Pacific cod stocks are fully utilized before we eliminate foreign fishing on those stocks? Eliminate foreign allocations of Pacific cod now and you are providing an economic incentive to the U.S. industry.

U.S. capacity and intent is already clearly evident on that species, and others, such as blackcod. Would other nations be so considerate of us if the tables were turned? I doubt it!

Why, Mr. Chairman, must our industry be expected to support a variety of enforcement regulations including hold inspections and observer programs, and yet listen to our own Government tell us that it is somehow not practical to expect our foreign competitors to do so similarly? If it is OK to require our crab vessels to travel hundreds of miles across the Bering Sea to have preseason/postseason tank inspections, how can it be that foreign vessels should not be required to do similarly?

Underlogging catches and fishing prohibited species is commonly suspected of the foreign fishing and processing operations. Simply require of them what you require of us! Do not expect them to police themselves; let us police them at their expense, as the law provides. Make them check into our Fishery Conservation Zone and check out again when departing. You might be amazed at the effect.

I can tell you from firsthand experience that developing the underutilized species of the North Pacific is expensive and risky. It also represents an economic opportunity that many of us feel we cannot ignore. We are acutely aware that there is no status quo in our business. We must figure out how to utilize these resources in order to survive.

While it may be undesirable to subsidize our industry as our foreign competitors' governments do, at least force them to compete with us on the same terms through the use of realistic foreign fishing fees.

Realize what their trade barriers are doing to us and force them to give us an equal economic opportunity.

Support the successful fishermen and the successful processors with investment incentives that will encourage people willing to accept the risk of investment.

Realize that the fishing industry is not just fishermen or just processors. You cannot solve industry problems by considering the impact on only one segment of the industry.

Help our industry by eliminating the impression within certain Federal agencies that we are expendable trading stock in international politics.

Simply, help us to help ourselves.

Mr. Chairman, your presence here today is evidence of your concern for our industry and I appreciate the opportunity to express my views.

Senator GORTON. Thank you, Mr. Pedersen.

Mr. Bundrant.

Mr. BUNDRANT. Good afternoon. My name is Chuck Bundrant, president of Trident Seafoods Corp. of Seattle, Wash. I want to thank you for the opportunity to express my opinions on fisheries development.

Giving speeches is not my forte, so I will lay out the facts as I see them.

First, how development has progressed to date. We at Trident Seafoods have had the advantage of watching the growth of another formerly "underutilized" species called king crab. We have seen the same phenomena occur in the snow crab fisheries. We were told that we had a harvesting surplus until last year. Now we have reduced quotas with an oversupply of harvesters and processors and markets available to us that we cannot fill.

I think the lesson to be learned from all of this is, we don't need to have other nations harvest our fish for us regardless of how backwards they claim our harvesting capacity is. A tax incentive system represented by the capital construction funds and the guarantee mortgage provision of the National Marine Fisheries Service vessel obligation guarantee program has formed the capital and credit base from which a dynamic fleet rapidly came into being.

Those of us who participated in the development of this fishery owe much to those processors who provided financial and moral support for our vessels. We also stand in support of the previously mentioned fishing vessel obligation guarantee program and the capital construction fund. I believe that Trident's transactions with these programs have been positive for all parties involved.

Because of the buildup of the various fishery fleets without other development steps to expand processing capability, we now have an impediment to domestic fish utilization. It is time to provide similarly effective development stimulants to the processing and marketing segments of the fishing industry. It is obvious that the same tax incentives and guarantees that let to the construction of a large and capable fishing fleet should be extended to the seafood processors. In a study recently concluded by Natural Resources Consultants of Seattle, Washington, it was pointed out on page 11 of the executive summary:

> The high cost of money, even without differential construction costs, puts the U.S. in a difficult competitive position and probably constitutes the major disadvantage to Americans in competing with Japanese, South Korean, European and Communist bloc nations operating within the U.S. FZC.

With the passage of the American Fisheries Promotion Act, the Breaux bill, it was my sincere hope and the hope of the industry that title 11 funds were to be extended to that segment of the industry which so desperately needs it. The difference is readily apparent.

A conventional $7 million loan at 18¼ percent for 10 years would yield payments, principal and interest, of $1,571,462.98. The same title 11 loan predicated on the latest title 11 rate amortized over 25 years would demand yearly payments of $970,767.30, a difference of $600,695.68 or well over $50,000 per month. This kind of cash flow is critical for sustaining inventory and overall operations.

The title 11 program is self-sustaining in that it does not cost the American taxpayer and in terms of economic multipliers actually adds to the economic health of the Nation.

Gentlemen, I am compelled to ask why? Why is this program scheduled to be phased out by 1984? If anything, it should be expanded from its current ceiling limit of $50 million. It would likewise appear feasible to extend the capital construction fund to the

needs of the shoreside processor as well. It is worth repeating, these are not giveaway programs but rather a loan program designed to enhance those goals specifically stated in the Magnuson Fisheries Conservation and Management Act one of which specifically addressed is bottomfish off Alaska.

Trident Seafoods is aggressively pursuing the development of Alaska groundfish and is currently building a multispecies fish plant in Alaska which will, when completed, cost in the neighborhood of $10 million. It is our desire to prove the consultants wrong who say a shoreside plant for groundfish is years away.

Gentlemen, as I stand before you, it is days away. In 1981, about 84 percent of the entire domestic allowable harvest in the Bering Sea was caught by the various joint venture arrangements. Those U.S. fishing vessels involved with the joint ventures deliver to mother ships which have never heard of OSHA, FDA, or the minimum wage.

In essence, we must compete with organizations, countries, which are based on different social and economic demands than our own. That joint venture arrangements have a place of their own is not disputed but in keeping with the spirit and letter of the joint venture amendment to the MFCMA, we feel that measures should be taken to insure fair competition with shoreside processors. We require a high quality product delivered on a timely basis in order to survive in a highly competitive, quality conscious world bottomfish market.

If we are forced to receive product from areas distant to our plant, either because we cannot compete with foreign processors monetarily for local product or because local stocks are depleted due to foreign fishing operations, our product quality will drop and we will no longer be competitive.

In 1978, the North Pacific Management Council supported the processor preference concept of Public Law 95–354 when they voted for a 12-mile window around a domestic processing facility. Unfortunately, the concept was not heeded by the former administration and no precedent has been set as of yet. However, it is my understanding that the State of Alaska has goals identical to those stated in the MFCMA to, one, increase employment, two, contribute to the local economy, and three, enhance foreign trade opportunities. Therefore, scenarios for a domestic processor sanctuary are being considered by the regional management council. With the advent of the New Federalism it is sincerely hoped that the regional council will be allowed to implement those policies best suited to the long-term economic goals of the State of Alaska and in turn the long-term economic good of the Nation.

What future steps could and should be undertaken? Let me be unequivocal and to the point. First, you, as elected officials should insure that the title 11 program not only remains solvent but also remains economically viable enough to aid the industry it was mandated to aid. You should increase the funding level and eliminate the 2-year phaseout of this program.

Second, you should augment the title 11 program with a shoreside capital construction fund. Both of those programs are virtually self-sustainable and should not be considered a dole.

Third, vigorous enforcement of the 1978 joint venture amendment to the MFCMA listing as priority one U.S. vessels harvesting U.S. fish for U.S. processors. We seek a comprehensive national approach to questions of fisheries development that goes beyond the concept of a mere extractive resource and includes definite infrastructural investment—that is shoreside processing facilities—which contribute to the economic well-being of the host State and consequently the Nation as a whole.

Fourth, continuation of the fish and chip policy as an incentive to buy U.S. fishery products. In some cases it should be noted that joint venture, over-the-side purchases are viewed as the cheapest way of complying with the fish and chips concept.

It is Trident's position that the exportation of processed items as opposed to the raw resources is the preferable chip that should be commanded. The overabundance of joint ventures has created a fleet of fish sharecroppers with no long-term profitability scheme and no development of infrastructure other than the fishing vessels themselves.

The recognition of this problem was evidenced in Congressional Report No. 95–1334 of the 2d session of the 95th Congress stating: "Unrestricted purchasing of U.S. harvested fish by foreign processing vessels could effectively prevent the full development of the U.S. fish processing industry."

Fifth, gentlemen, we do not seek gratuities. We do seek praise. We seek an end to paper promises, the phased-out before it was phased-in shoreside title 11, and bandaid solutions such as joint ventures.

The fleet is already in place and any needed extra elements can be readily added to harvest all of our available resources if markets can be found, and they do exist. We believe that a base-zero foreign fishing effort should be phased in over a reasonable period of time, for example, 20 percent a year for 5 years. This is not a unique or revolutionary concept. Mexico has applied it to the American Gulf of Mexico shrimp fleets. Canada has ruled the phaseout on Pacific Northwest trawlers from their water. Many African and Latin American Nations allow no foreign fishing at all.

In this current administration of renewed economic growth, it is worth repeating that the goals of Trident Seafoods are identical to those of the United States as stated in the MFCMA and it is our sincere hope that in the near future there will be no such thing as a TALFF or an underutilized species.

Thank you.

Senator GORTON. Thank you.

Mr. Boroughs.

Mr. BOROUGHS. I'm Bob Boroughs. I am marketing director for Swiftsure Fisheries in Seattle. I am also representing several seafood companies that make up the Northwest Fisheries Association.

You have my printed statement so I will be very brief with my comments here. Our basic premise is that we would like to eliminate foreign processing in our waters as quickly as possible.

I would like to ask this simple question, if we allow foreign fishermen to come in and fish and foreign processors to process our so-called underutilized species within our fishery zone, why should

they buy from us. If they cannot lay their hands on these resources any other way than to buy from us, they would do it.

Let me give you an example of where this has happened, Mr. Gorton. It was mentioned earlier this morning. the Japanese for years have been taking great quantities of snow crab in the Alaskan waters and selling it on their market. The prices have been such that the U.S. processors cannot compete. The U.S. fishing industry was able to get the snow crab quota to the Japanese within our waters eliminated. The world prices increased and the fishermen had a place to sell their catch. U.S. production has increased along with the demand. The U.S. fishermen and producers were able to make a profit in the world market selling snow crab, something they hadn't been able to do previously.

I won't repeat some of the other things which I said here in my written statement. In conclusion, we feel that the best way for us to utilize what is now called the underutilized species is to keep our U.S. waters for U.S. fishermen and processors and allow the world market to develop a price where everybody has the same opportunity to selling and profit.

[The statement follows:]

STATEMENT OF BOB BOROUGHS, MARKETING DIRECTOR, SWIFTSURE FISHERIES

Good morning, ladies and gentlemen, my name is Bob Boroughs, and I am the director of marketing for Swiftsure Fisheries in Seattle. I want to thank you for giving me the opportunity to appear before you and give my views.

Swiftsure is involved in the operation of plants in Anchorage, Cordova, Kodiak, and Larsen Bay in Alaska. Our main office and sales headquarters is in Seattle. Because of my years of involvement in marketing of seafood products, it is the marketing aspect of the problem of under-utilized species that I would like to address. We are all aware and have read many statistics concerning the abundance of seafood products that lie within our 200 mile conservation zone. We are aware that many of the various species are not being utilized to their maximum sustainable yield. Among these are various types of cod and white fish. The question is, why are these species not being utilized? They are certainly being utilized in other countries of the world. Why are our processing plants not processing these species? I am certain the answer is economics. At this time, we cannot make a profit by fishing and processing these products. There certainly is no one thing that keeps the industry from making a profit on marketing these products. I am sure there are many things that one can point to. But I believe that the major reason is the foreign processor who is subsidized by his government. The foreign processor does not have to adhere to the minimum wage regulations that U.S. processors have to abide by nor do they have to adhere to the rules and regulations of OSHA and other of our Government agencies. And incidentally, they do not pay taxes to our country. Because of these things, they can catch, process, and market these fish at a lesser price than we are able to do. This creates a situation in the United States whereby far the majority of white fish and cod fish that is sold and consumed in the United States is imported from foreign countries. It is possible to change this situation. I believe that if we were to eliminate foreign fishing and processing from within the 200 mile limit of our fishery conservation zone, we would immediately create a situation in the world market place whereby the demand for white fish and cod fish would be such that the world market price would increase and make it feasible for the U.S. producer and the U.S. fishermen to become heavily involved in the processing of under-utilized species and do it at a profit.

Let me give you an example of where this has happened. The Japanese for years had been taking goodly quantities of snow crab from Alaskan waters and selling it in their market at prices where the U.S. processor could not compete. The U.S. fishing industry was able to get the quota of snow crab for the Japanese within our waters eliminated. Immediately, the world price increased. The fishermen had a place to sell their catch, and the U.S. production has increased along with the demand. The U.S. fishermen and producers were able to make a profit in the world market selling snow crab, something they had not been able to do prior to that

time, what this comes down to is this. If we allow foreign fishermen to come in and fish, and foreign processors to process the so called under-utilized species that is within our fisheries conservation zone, why should they buy from us? If they cannot lay their hands on these resources any other way than to buy it from the United States, they will have to do it that way. The fishermen, who I am sure would rather fish for U.S. processors, will have an opportunity to fish for species that are in abundance and have a market for them. The world market price will stabilize at a point where processors can make a profit. There is no question in my mind that American fishermen can outfish foreign fishermen. Just give them the opportunity. There is no question in my mind that the U.S. processor can process more cheaply than the foreign processors, if all the rules of the game are the same. The marketing ability of the U.S. industry can market the product as well as our foreign competition.

To conclude, let me say I feel the quickest and the best way for us to utilize what is now called the under-utilized species is to keep our U.S. waters for U.S. fishermen and processors and allow the world market to develop to a price where everybody has the same opportunity to sell at a profit.

One other thing I would like to add is a photo copy of statement that appeared in the February 1982, issue of Pacific Fishing. It was written by Jim Ferguson, president of Pelican Cold Storage Co. We feel this states our feelings concerning joint ventures very well.

Attachment.

[From Pacific Fishing, February 1982]

JOINT VENTURES HAVE STYMIED THE GROWTH OF THE DOMESTIC PROCESSING SECTOR

Some industry leaders are becoming increasingly concerned about the long-term effects of the joint venture program as we know it today. I acknowledge that over-the-side joint ventures have created an interim market for the high-volume, low-value species, and the trawler fishermen have proven they can catch the fish, at times better than the foreign fleets. However, the joint ventures have, in effect, stymied the growth of the domestic processing sector. In addition the proliferation of joint ventures now threatens the established seafood processing sector by allowing foreign processing inside the base line, which would include Puget Sound, San Francisco Bay, Chesapeake Bay and Bristol Bay.

Many problems of the joint venture concept are complicated. The economic loss due to the fact the fish are processed by foreign labor abroad foreign plants results in millions of dollars lost to the economy every year. Dr. McCaughran of the International Halibut Commission has documented that the dollar loss at retail of the salmon, halibut and crab through by-catch was equal to or greater than the value the fishermen received for their total catch in the yellowfin sole joint venture fishery. A 2 percent by-catch from a projected joint venture 750,000 MT in Alaska and 200,000 MT in the California, Oregon and Washington harvest, represents 41,800,000 pounds of seafood products lost. This level of by-catch may be acceptable if you add the value-added estimated economic multiplier of $3.02 for every $1.00 in sales of raw fish. However, to lose this multiplier the price we are paying for this loss of millions of pounds of valuable products is too high.

The FCMA has provided a confidence level with the resource and should continue to attract the required interest from the financial community to support the necessary investment for a total utilization of the seafood resource. The joint venture programs are removing half of this confidence by allowing foreign competition to enter the processing end of the industry. The joint venture is, in effect, building a weak foundation for the growth of the industry.

The entry of the joint venture vessels into the established salmon and herring fishery processing areas during anything but surplus conditions is unacceptable. Some of the harvesting sectors are looking for price concessions when asking for additional processing capacity. This short-term solution is sure to have long-term effects on the growth of the domestic industry. When the domestic processor can no longer afford to operate profitably, the foreign processors will have control not only of the resource, but of the fishermen. If the world market does not allow the foreign joint venture operator to be profitable, the producers could end up without a market—which is not so far out of line due to projected fuel prices and the cost of a high sea processing operation. Also, foreign operators are not subject to the same type of antitrust legislation as the domestic processor and, frankly, I would not want to depend on a foreign joint venture buyer who operates as a cartel with other buyers in the same fishery and no other market available. The domestic processors also give the producer a greater market advantage. If the joint venture partner's

country is concerned about a protein shortage they may or may not sell the products on the world market. The domestic processor can sell on the North American, African, European, Asian or South American market as the world market dictates, free of internal problems unassociated with the seafood industry.

I do not feel joint ventures should be abolished. Some are successful and they are fulfilling a need with today's industry.

I feel we should control the joint ventures so as not to hamper the further growth of the total U.S. industry and not to be dependent on foreign operations to direct our destiny. I am suggesting the following guidelines:

No joint venture or TALFF be allowed on any fishery with a country with unfavorable trade status.

No joint venture or TALFF be allowed on any fishery with a country that has restrictive tariff import duties on any seafood products produced in the United States.

Any country that has more than three violations be banned for two or more years. Tougher enforcement regarding vessel confiscation and cargo seizure.

Increased foreign fishery fees to pay for the total FCMA program.

Extend foreign fishery fees to joint ventures on the basis of 50 percent of the fees assessed to foreign fishing vessels over a five-year span, starting with 10 percent the first year.

Expand the fish-and-chips policy with a guarantee of follow-through.

Expand on-board training programs through fishery organizations and domestic universities.

Engage in a study, requested by the International Longshoremen's & Warehousemen's Union, to review the total impact of joint ventures on the fishery, industry, and nation.

Guarantee the domestic industry a right of first refusal on 50 percent of the finished product at the world market price.

Establish a national policy to phase out joint ventures over the next five years.

Allow joint ventures inside the base line for surplus capacity requirements only with federal and state review.

I feel most American fishermen would rather fish for a U.S. processor if given an opportunity. Joint ventures have become a major obstacle to the long-term growth of the industry and should be given additional attention by regulatory agencies. In the long run what is good for the domestic producer is good for the domestic processor; what is good for the domestic processor is good for the domestic producer and the nation.

Senator GORTON. Thank you.

Mr. Jensen.

Mr. JENSEN. I am Ronald Jensen, senior vice president and general manager of seafoods for Castle & Cooke. I am chairman of the board and president of Pan Alaska Fisheries and president of Bumble Bee Seafoods. You have received my written testimony on behalf of my company and on behalf of my position as first vice president of the National Fisheries Institute.

I would now like to take off from that testimony with some other comments.

You've heard many remarks, comments and opinions here today. I would like to summarize some of these issues. The Alaska and Pacific Northwest industry is primarily composed of self-made men and women. Fish people have developed their careers and livelihoods in most instances from scratch. These businesses when compared to others across the Nation are relatively small. It is my experience that fish people do not want subsidies from anyone for two key reasons: We are proud and we don't like to ask for help. We have learned the golden rule, "He with the gold makes the rules" and being an independent lot, we don't like anyone telling us what to do or how to do it.

So, we are in a tough spot. We don't want to ask for help and yet we can't succeed unless we have some help and a national commitment. To increase involvement of U.S. processing industries in un-

derutilized species, I believe there are seven actions to be considered by the fishing industry, this committee and other interested parties. They are, one, more innovative use of the optimum yield concept which you've heard before and, two, use of the fish and chips policy to reduce tariff and nontariff trade barriers in order to improve access to foreign markets; three, increase cost-support fishing activities within the fishery conservation zone; and four, the purchase and use of foreign-built catcher-processor vessels; five, extension of the capital construction fund to processing activities onshore; six, use of fish products in other foods and lastly, reduce tariffs on import equipment.

I would now like to summarize an eighth point. In any discussion of U.S. commercial fishing industry, the key word to keep in mind is potential. In our 200-mile zone we have over 20 percent of the fishery resources of the world. Despite this enormous potential, a commercial fishing industry capable of fully exploiting these resources has failed to develop in the U.S. This failure to develop is in large part due to a lack of national commitment and present policies which do not promote development.

In fact, Federal agencies and regulations have impeded harvest and marketing growth. The existing industry is highly fragmented. The few fish processing companies that might be considered giants are quite small when compared with the large companies involved in other areas of food processing.

Moreover, the industry is divided into two distinct groups: the fishermen and the second group, processing and marketing. Federal regulations of these two groups are centered in NOAA which is a division of the Commerce Department but there are however 21 Federal agencies that run the fishery matters plus 14 congressional committees and 17 subcommittees. Every State also has its own industry or department that handle fishery issues. When you add to this list all the Federal and State agencies devoted to protecting our health and environment and considered the highly fragmented nature of the industry itself, it is easy to understand why during the last 30 years in the United States the commercial fishing industry has failed to show growth which at this time is 35 percent of the live weight basis compared to a catch of 238 percent experienced by the balance of the world's fishing industry.

The primary obstruction to realizing our fishing potential is the persistent notion held by Congress that the harvesting group, the processing and marketing group must operate under the same plan and be administered by the same Federal agency. Each of the two distinct groups has its own separate problems. There is logic in combining the Federal administration of fisheries harvesting with the other activities of NOAA because they are all ocean and atmospheric related. There is no logic however for including marketing and processing in a Government agency which devotes its interests to offshore activities. Processing and marketing of fish products are compatible in every respect with other foods.

The United States has never made a serious attempt to integrate fisheries food activities with land-based food production programs. This is unfortunate because the Department of Agriculture has successfully promoted our agricultural products and food programs throughout the world and it is far better equipped to develop pro-

grams which will promote fisheries product growth. This committee should look at all the policies and programs that have worked so successfully for our land-based food sector and see if we can accomplish the same for our valuable seafood products.

Mr. Chairman, we applaud and appreciate your efforts to support the development of a healthy economically viable seafood industry.

Thank you for this opportunity to testify before this committee. Our special compliments go to your staff for putting this together, especially Cheryl Coodley who has done a tremendous job and we thank you very much.

[The statement follows:]

STATEMENT OF RONALD JENSEN, SENIOR VICE PRESIDENT, CASTLE & COOKE, INC. AND FIRST VICE PRESIDENT, NATIONAL FISHERIES INSTITUTE

Mr. Chairman, I am Ronald Jensen, Senior Vice President of Castle & Cooke, Inc., and President and Chairman of the Board of Pan Alaska Fisheries, Inc. I am also testifying this morning in my capacity as First Vice President of the National Fisheries Institute. The Institute is a national trade association representing more than 1,100 companies which harvest, process and distribute fish and seafood products.

I am pleased to have the opportunity to testify today on the status of efforts to develop markets for underutilized species of fish. Discussion of this topic is timely as this Committee is preparing to address amendments to the Magnuson Fishery Conservation and Management Act. Indeed, a major goal of the Act is to encourage the use by American industry of the many unused or underused resources within the fishery conservation zone. As we evaluate five years under the MFCMA, it is important to analyze how far we have come and where we are going. The National Fisheries Institute and the Pacific Seafood Processors Association have recently received a study designed to identify the impact of foreign fishing in the U.S. fishery conservation zone on domestic processing. Other studies have reviewed the potential for the future development of West Coast and Alaskan groundfish.

The studies indicate that major fishery resources, including Alaskan pollock, Pacific cod, Pacific whiting, Pacific ocean perch and rockfish are available for major expansion efforts by the U.S. industry. These resources if fully utilized by U.S. fishermen could "approximately double the current U.S. landings for species of fish and shellfish." At this time, however, much of this resource has not been harvested by the United States. With regard to U.S. processing, history indicates that sales over the side to foreign processing vessels rather than to U.S. processing operations have been the rule rather than the exception. This is particularly true in the case of Alaskan pollock and Pacific whiting.

To reverse this trend and increase involvement by the U.S. processing industry in underutilized species, I believe there are seven actions to be considered by the fishing industry, this Committee and other interested parties. They are:

(1) More innovative use of the optimum yield concept;
(2) Use of the fish and chips policy to reduce tariff and non-tariff trade barriers in order to improve access to foreign markets;
(3) Increase costs of foreign fishing activities within the fishery conservation zone;
(4) The purchase and use of foreign-built catcher/processors;
(5) Extension of the Capital Construction Fund to processing activities;
(6) Use of fish product forms in other foods; and
(7) Reduced tariff on imported equipment.

OPTIMUM YIELD CONCEPT

It is the stated purpose of the MFCMA to encourage the development by the United States fishing industry of underutilized fisheries and, as amended by last year's fisheries development legislation, to ensure that optimum yield determinations promote such development. Thus, the yield from a fishery, which under the Act is the amount of fish which will provide the greatest overall benefit to the nation with particular reference to food production, is now designed, in part, to ensure the development by United States fishing industry of the fisheries which are currently underutilized or not utilized by United States fishermen. Innovative use of the OY concept in both the tanner crab plan and the butterfish plan has resulted in increased harvesting and processing opportunities for the United States industry. I believe that more aggressive use of this OY concept will decrease the level of foreign

fishing in various fisheries and will provide additional opportunities for the United States industry.

FISH AND CHIPS

Again, under the language of last year's fisheries development legislation, the Congress codified into law the fish and chips policy.

The policy bases TALFF allocations on 8 factors, including whether foreign nations are imposing tariff or non-tariff trade barriers to U.S. fish products and whether such nations are cooperating in the advancement of fisheries trade, particularly through the purchase of fish or fishery products from the United States industry.

At times, the emphasis under the fish and chips policy, however, has been on the increased use of joint venture operations. Indeed, certain individuals have suggested an even more predominant focus on this activity. In terms of increasing the sale of underutilized fish species by the U.S. industry, however, I suggest it is just as important to place an emphasis on the reduction of tariff and non-tariff trade barriers and the actual purchase of processed U.S. fishery products by foreign nations desiring TALFF allocations.

FOREIGN FISHING FEES

Another mechanism which may reduce foreign fishing activities is the fee charged by the Secretary of Commerce under Section 204 of the Act. The American Fisheries Promotion Act provided that the Secretary shall establish a level of fees equal to that portion of the cost for administering and enforcing MFCMA represented by the foreign harvest segment of the total U.S. and foreign harvest within U.S. waters. Under the new 1982 fees schedule, it is estimated that the U.S. will collect $35 million as compared to an estimated $22 million in 1981. At some point, increased fees and other increases in production costs may cause foreign markets to decide to buy processed products directly from U.S. processors. It is possible that fee collections will be reduced from the estimate if the foreign nations reduce their fishing activity.

PURCHASE AND USE OF FOREIGN-BUILT CATCHER/PROCESSORS

This policy has been suggested as an option to accelerate the growth of the groundfish industry. I view this option as an important one based on the recent conclusion of the report prepared for NFI that "even with equal productivity and quality U.S. industry processing (factory trawlers) probably will not show a profit under the current world market prices for pollock or hake, if capitalized at today's construction costs and current interest rates."

Our study indicates that the current foreign catcher/processors in use were built at a cost, in the late 1960's and early 1970's, of $4 million, and financed in many instances at subsidized interest rates of between 2 and 4 percent. Estimates of U.S. construction costs for similar vessels indicate that such a vessel would cost around $25 million and increased debt service cost alone would result in a $4 million loss annually. To illustrate this point from another perspective, the annual debt service cost for a factory trawler built twelve years ago is less than the annual principal and interest payment on a 130 foot U.S. joint venture trawler class vessel constructed in 1980.

The Institute and its member companies are currently evaluating the study and will come to a determination in the near future whether changes in U.S. law to permit the purchase and use of foreign-built catcher/processors represents a feasible method of encouraging increased U.S. use of underutilized species.

EXTENSION OF CAPITAL CONSTRUCTION FUND TO PROCESSING ACTIVITIES

Extension of the Capital Construction Fund program to procesing activities has long been supported by the U.S. processing industry. The current program which is applicable to fishing vessels has permitted vessel owners to set aside a tax deferred fund for the construction of new vessels or the renovation of existing vessels. It represents an attractive method of acquiring the necessary financing through internal company operations.

Extension of this program to processing facilities has previously been approved by the United States Senate but was deleted in conference with the House Merchant Marine and Fisheries Committee during consideration of a maritime authorization bill. I believe the concept represents an innovative use of the tax code to encourage capital investment by the seafood industry and I urge this Committee to continue its strong support for the extension of the program to shoreside facilities.

USE OF FISHERY PRODUCT FORMS IN OTHER FOODS

Pending in the Department of Agriculture is an industry-sponsored petition to permit the use of minced fish in meat and sausage products. At the current time, other sources of protein, such as soy and chicken, are incorporated into meat and sausage products and the success of this petition would extend that authority to fish.

Pan Alaska is currently cooperating with the National Marine Fisheries Service and the petitioner in a project funded under the Saltonstall-Kennedy program to make minced Pacific groundfish available for future testing. This testing will enable the Service and the industry to address technical questions raised by the Department of Agriculture. Approval of the petition by the Department of Agriculture will enhance the potential use of significant amounts of minced groundfish by the meat industry.

I believe the project mentioned above illustrates the successful use of Saltonstall-Kennedy program to encourage the development of underutilized species.

REDUCED TARIFFS ON IMPORTED EQUIPMENT

Efforts to improve the competitive position of the U.S. processors and fishermen could also be assisted by reducing current tariffs on imported processing machinery, netting, and electronic devices (radar, echo sounders, etc.).

Mr. Chairman, in conclusion, I believe the seven action items outlined above will enable the United States fishing industry (both processors and harvesters) to expand its use of underutilized species found within the fishery conservaton zone. Certainly, a major goal of the MFCMA is to encourage the use of such species by the American fishing industry. The Commerce Committee's continued interest in this matter is appreciated.

I believe the industry has made significant progress in the preceding five years and look forward to continued progress.

Senator GORTON. Mr. Bundrant and Mr. Boroughs, in order to assess your recommendation that all foreign fishing operations be phased out in our Fishery Conservation Zone over a 5-year period at the rate of 20 percent a year, there are several issues we must examine. First, would American processors be able to take up the slack? Second, would they be capable of producing as much, or more, of these fish products as they are presently purchasing? Finally, would that be the case, even if several of these Federal loan programs were eliminated?

Mr. BUNDRANT. I would have to say yes because I argue that 10 years ago or 5 years ago we convinced the Government that we could harvest king crab and we could harvest the Tanner crab resource. I think that when they put a man on the Moon, Americans can do just about anything.

Senator GORTON. Do you think they could do this without any subsidies?

Mr. BUNDRANT. No; we'd have to be put on the same competitive basis they are.

Mr. BOROUGHS. I agree with what Chuck says but I'd have to go a little further. American fishermen, in particular the fishing industry, when anything is economically feasible, they are able to do it. I am sure they can continue to find a way to do it.

Mr. JENSEN. I think an important rule here, Senator, is we shouldn't kid anybody. There is no way to make any money in the pollock business as it is now constituted in the world market; there is no way. Unless we get some kind of help to make us cost competitive, we are not going to enter in any major way. I think anybody who would lead you to believe that one little program in one area is going to help us, is really kidding themselves. The bottom line is that it has to be a major operation. We'd need a lot of help and this

is what has been very hard for the fishing industry to overcome. We have fought like hell to stay separate, to be independent and we're kind of on our knees now. That's where we are.

Senator GORTON. Mr. Jensen, do I understand that the thrust of your statement is that in the absence of aid to the processing industry, it could not take over the market in a 5-year period?

Mr. JENSEN. I think that's absolutely true because it is a world market. We're not talking about fish that we are going to process and sell domestically. We're talking about fish we're going to sell domestically as well as in the world market and we have to compete on the world market and, therefore, our costs have to be competitive with world market prices.

Senator GORTON. Do the American processors have the technology, and are they currently using it, to produce a quality of product that would be competitive in Japanese markets, if those markets were open to you?

Mr. JENSEN. Yes, I see no problem with that at all. In fact, in Dutch Harbor we are producing surimi and we're making fish sausages out of pollock.

Senator GORTON. Do you have any problems with perishability?

Mr. JENSEN. We have no problems. We have a process now that doesn't create any problems in perishability.

Mr. PRITCHARD. I take it that you're talking about meeting the world price in pollock. There's a difference in weight grades and also subsidization. How heavily are the foreign fishing industries subsidized? Is that a major factor?

Mr. JENSEN. I think there's some pluses and minuses. One, we can't deny that the high seas operations are expensive operations to support these facilities so there's an obstacle there. I don't think we should just talk about all the bad. We feel that labor is cheaper there so therefore they have a cost advantage. They also have some disadvantages. I think of the major things though, I think Dr. Alverson touched on it, was the cost of entry.

If you are dealing with a vessel that was built in the 1970's for $4 million, you build that same vessel today and it will cost you $25 to $30 million. We can't compete. Let's not kid ourselves.

Mr. PRITCHARD. Particularly with the interest rates.

Mr. JENSEN. Yes, the interest rates. Even if you got a subsidy for the interest rates, the principal to be paid is high.

Senator GORTON. Do you all agree with the recommendation of allowing U.S. arms to acquire and use foreign-built factory trawlers?

Mr. PEDERSEN. I'm certainly not prepared to endorse that policy at this point. I think it is a relatively new thought and I think it certainly bears some further investigation. You can think of a long list of horror stories about what they may or may not do. I'm not prepared to state so now.

Senator GORTON. How about the rest of you?

Mr. BUROUGHS. Is there going to be a limit there, that you're going to get one and I don't?

Mr. BUNDRANT. I'm sorry, I couldn't endorse that.

Senator GORTON. Why not?

Mr. BUNDRANT. For one thing, I'm in the shipyard business and second of all, I've already put my eggs on the beach.

Senator GORTON. So you're suggesting that you have invested, based on one set of rules, and to change the rules now would place you at a competitive disadvantage?

Mr. BUNDRANT. Exactly.

Senator GORTON. Thank you all. I would like to thank all of the witnesses who have participated today.

I must say that I have found all of your comments most interesting and informative. This hearing is now adjourned.

[Thereupon the hearing ajourned at 12:55 p.m.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

Statement of John G. Peterson, President, Ocean Beauty Seafoods

Mr. Chairman and members of the Committee, my name is John G. Peterson and I am President of Ocean Beauty Seafoods, a wholly-owned subsidiary of the Sealaska Corporation. I am also the President of the Pacific Seafood Processors Association and a past president of the National Fisheries Institute. I am pleased to be able to testify before you today.

Public Law 94-265, known as the Magnuson Fishery Conservation and Management Act (MFCMA) was passed by the Congress and signed into law by President Ford in April of 1976 to become effective March 1, 1977.

The intent of the legislation was to establish a national program for the conservation and management of the fishery resources found off the Coasts of the United States, and to encourage the utilization of these vast resources by this country's fishing industry. We believe that the conservation objectives of the Act have for the most part been satisfactorily met. The issue which you are appropriately asking today—six years after the Act's passage is whether the Act's utilization and development objectives are being met, and if not, what can be done to address the situation.

The majority of this country's underutilized renewable fisheries resource is situated off the coasts of Alaska, Washington, and Oregon. The species involved include Pacific whiting and squid from off the coasts of Washington, Oregon and California, and the vast pollock and groundfish resources in Alaskan waters.

U.S. fishermen, under the provisions of the MFCMA, have substantially increased their harvest of some of these underutilized species, primarily through joint ventures with foreign processing vessels. Unfortunately, the domestic seafood processing indutry has not fared as well, for reasons I will indicate to you in the next few minutes.

The domestic seafood processing industry is composed of a large number of firms which are, for the most part, small and closely held. They are forced to view underutilized resource development as an economic process in which the rate of return must be commensurate with the degree of risk. Individual processors have had difficulty generating the capital resources necessary for underutilized fishery development.

Most foreign fishery operations in the FCZ are subsidized by their governments. In some instances, this results in the import into the United States of fishery products harvested in the FCZ at prices which are not profitable to the U.S. industry. For example, in 1980, 62,665,001 pounds of blocks of frozen pollock were imported at an average price of 63¢ per pound, according to the National Marine Fisheries Service. An independent economic consultant recently projected the likely cost of producing such frozen pollock blocks aboard a newly constructed U.S. factory trawler at $1.02 per pound in contrast to projected costs of 52¢ per pound for an existing Japanese factory trawler. This illustrates the economic difficulty facing the domestic industry.

A number of factors combine to provide foreign processors with economic advantages over U.S. processors while operating in the U.S. FCZ. Those advantages include among other things: access to cheap money, government subsidies, lower fuel and labor costs, protected markets, and the freedom from compliance with expensive U.S. regulations, such as OSHA, FDA, EPA, Coast Guard, etc.

Further, although our government advocates free trade policies for imported seafoods, this is not the situation facing U.S. processors who wish to sell their products abroad. While our nation has annual net trade deficit exceeding $2 billion in fish products, tariffs and a variety of trade barriers are an everyday fact of life facing U.S. sales efforts throughout the Far East and Europe.

These foreign advantages make the economic feasibility of the U.S. development of underutilized resource fisheries in the Northwest quite difficult. Lending institutions are and will remain reluctant to make development and operating capital available to U.S. processors as long as the foreign processors retain these economic advantages.

In spite of the many obstacles, the west coast processing industry has made some noteworthy advances. Market development and consumer education programs are continuing efforts by the industry to educate the consumer about the benefits and availability of these fine food sources, thus developing the necessary demand and potential revenue to justify future resource development costs. Pilot projects are being conducted to inform processors and fishermen about optimal operational techniques and available technology—and to evaluate the costs of harvesting, processing, and marketing these less familiar resources. Yet even so, the domestic seafood processing industry can greatly increase its use of these fisheries in the FCZ if solutions can be found which will make domestic processing more practical as well as profitable.

Some of the proposals which have been made to help address these obstacles include: technical assistance to improve processing efficiency; product quality improvement; amending vessel documentation laws to allow foreign-built vessels to participate in U.S. Fisheries; extension of the Merchant Marine Act's capital construction program to U.S. shore-based processors; relaxation of labor, safety and environmental regulations; increased government commitment to shoreside support facility (infrastructure) development; reduction of foreign tariffs and trade barriers; direct loans and fuel cost adjustment for the U.S. industry; and special tax credits to encourage further development of processing facilities. Optimum yield adjustments to facilitate increased resource use in processing operations has been suggested as a possible avenue. Also, increasing fees to foreign vessels operating in the FCZ and decreasing or eliminating foreign access to FCZ resources have been discussed. In short, the proposals cover virtually the entire spectrum of possibilities.

I would like to narrow the focus and suggest both a general and more specific outline of what a realistic and justifiable federal role can be to help the industry.

Generally: First, the federal government should not expend its resources on doing what a prudent, resourceful businessman would do on his own initiative, nor should it involve itself in the businessman's day-to-day decisionmaking out of a desire to "help" the industry grow.

Second, we do not believe that subsidies to the fishing industry's operations in order to offset foreign cost advantages are appropriate or likely.

Third, general national economic recovery is essential. A major disadvantage to U.S. processing development remains the high cost of money, as it must be to all other domestic industries. Even if all of the other limiting factors were to be resolved, a high cost of money would still severely limit U.S. competition.

Specifically: We believe that the government does lack an important and appropriate role in a number of respects:

First, it is essential to the health of our existing industry and to our possible growth into underutilized species that the federal government help us roll back or circumvent foreign tariff and nontariff trade barriers. These barriers stand as a major obstacle to the U.S. processing industry's utilization of the vast bottomfish resource. "Fish and chips" diplomacy is a proper and useful step in this regard, although we are a little concerned that "fish and chips", while presently being used only to advance joint venture projects between the U.S. fishermen and foreign processors, is not also being actively or creatively used to advance U.S. processors' marketing objectives as well.

We have three suggestions for improving our "fish and chips" policy: (1) NMFS and the State Department should join with harvesting and processing representatives to clearly identify both the objectives and implementation policies for using "fish and chips" to help develop the entire U.S. seafood industry. (2) A condition for government approval of foreign fishing operations in the FCZ should be the sponsoring country's elimination of trade restrictions applicable to the importation of any U.S. seafood products. (3) A mechanism, similar to that in the Packwood-Magnuson whaling amendment, should be developed that would reduce or eliminate a foreign nation's allocation in our FCZ if that nation breeched any of the commitments it makes to the United States in "fish and chips" negotiations.

We wish to point out, however, that "fish and chips" utility is limited to those nations that fish in our FCZ, and that isn't many any more. The government's assistance in battling foreign fishery trade barriers must be available wherever we encounter significant trade barriers. The federal government's pressure on the EEC to reject the recent "reference price" system for salmon is a prime example of this broader effort—and Mr. Chairman, we would like to express our deep and sincere appreciation to you for your leadership role in this successful effort.

Second, the federal government should not burden the industry with further costs, making us even less competitive. The proposal to recover 100 percent of the cost of the Coast Guard's indirect services through a user fee system is an example.

Under that proposal a number of fish processing vessels, which stay tied up to a pier 12 months a year and never go to sea, would be required to pay an annual "user" fee of $40,000. A Puget Sound gillnetter, who can fish half-a-dozen days a year must pay an annual fee of $1,350. The industry is simply not healthy enough to withstand this inequitable and inappropriate user fee proposal.

Certain other Coast Guard requirements make operations quite costly. Your recent action in Congress to extend certain Coast Guard inspection exemptions for processing vessels was crucial in this regard. If you desire, we could provide you with a more thorough list of such costly requirements that render the U.S. industry less competitive.

Finally, we note that there have been several areas where the government has worked closely and cooperatively with industry in development efforts. For example, the Title XI vessel loan guarantee program has been important to U.S. fishermen. The Saltonstall-Kennedy and other federal funds to assist in the so-called "Whitefish Project" in Akutan is another example. Because the economics of bottomfish development appear dubious at this time, it may be that the U.S. industry can utilize these resources on a stable, long-term basis only if some sort of government-induced financial incentive, such as tax deferrals on monies invested in fishery development, is provided. We are presently reviewing several studies recently prepared for us on underutilized fishery development and have not reached a definite opinion on what may be needed in this regard. We would, however, be happy to discuss our conclusions with you as soon as we have had the opportunity to consider more thoroughly these economic analyses.

Mr. Chairman, we applaud and appreciate your efforts to support the development of a healthy and economically viable seafood industry and thank you for this opportunity to testify before the Committee.

STATEMENT OF JAMES A. WEXLER, MANAGER, NATURAL RESOURCES DEPARTMENT, ECONOMIC DEVELOPMENT COUNCIL OF PUGET SOUND

Mr. Chairman, Members of the Committee, my name is James A. Wexler. I am the manager of the Natural Resources Department of the Economic Development Council of Puget Sound. EDC is a private, non-profit, multi-industry sponsored business development organization established in 1971 to diversify the economy in the Northwest. For the past 2½ years, pursuant to a Cooperative Agreement with NOAA, EDC has received partial funding for its fishery development program from the Saltonstall-Kennedy (S-K) fund. I appreciate the opportunity to present to this committee some "real-time" feedback from our S-K project to assist your review of the industry and of fishery development efforts in particular.

U.S. Department of Commerce statistics have indicated that more than 90% of the seafood consumed in the United States is imported. Of that figure, one-third of those imports are actually harvested within our 200 mile zone. Further almost one-third of the total United States foreign harvest that is imported is harvested in the Gulf of Alaska and the Bering Sea. In addition, one of the leading causes of trade imbalance in the United States today is this imported fisheries. In fact some statistical annuals indicate after oil imports and automobile imports, fishing and seafood imports rank third. One of the principal benefits realized by the Magnuson Fisheries Conservation and Management Act (MFCMA) has been its ability to crystallize the impact of the foreign fishing effort and the capability of the domestic industry to displace that foreign effort. This legislation has truly been a benchmark for the development of a new United States fishing industry. Hopefully, as specific problems arise, amendments and regulations will assist with fine tuning the overall intent of that legislation which is to conserve and manage the resource with the United States priority to utilize the resource.

Historically, due to favorable federal financing programs for fishing vessels and by the lure of high-valued species, the Northwest fishing industry has developed in the past twenty years by emphasizing salmon, crab, shrimp and halibut. As the numbers of vessels increased and the competition heightened, these traditional fisheries which are seasonal have become significantly regulated. To provide a stable economic base for the fishing industry and for the supporting economies to that industry, stable year-round efforts are necessary. The bottomfish and other underutilized species are available year-round and can provide a stable economic base to build a new industry. Some of the more significant species of the underutilized species however cannot be adequately harvested by the existing fleet. Specifically, Pacific whiting, pollock, and Pacific cod, all of which are members of the cod family,

require processing at sea to compete with the high quality imported products currently consumed by the United States and in international markets.

Because of the emphasis on stimulating development within the bottomfish industry our project focused on determining barriers to development of these underutilized species of the West Coast and where possible to generate solutions to overcoming such barriers. In the context of our project, "underutilized species" refers to species not presently being fully utilized by some sector of the U.S. industry or markets.

Our procedures have included field interviews with all segments of the industry including harvesters, processors, brokers, wholesalers, transporters, retailers and regulators. Industry members representing all segments of the industry continuum were canvassed to directly stimulate current market development and to determine their willingness to participate in test marketing teams involving specific underutilized species. Accordingly, the project was not a feasibility study but has been result-oriented with the goal of identifying barriers, recommending solutions and linking industry segments to develop underutilized species now. To date, EDC has obtained project goals by working with the industry and government to identify the barriers to development and generate the solutions presented here. Our efforts have been both domestic and international in market development.

Based on our industry review the barriers to development were identified two years ago and used as a base for forming the marketing teams. To date, some progress has begun in demonstrating methods for overcoming some of these barriers. However, none of the barriers have been removed and still remain a significant factor limiting the development of the bottomfish industry. The barriers to development include:

1. Problems of quality;
2. Continuity of supply;
3. Consumer awareness;
4. Packaging and new product forms;
5. Regulations;
6. Lack of a vertical integrated industry;
7. Lack of a market information system'
8. Investment control issues (foreign);
9. High price per unit philosophy;
10. Ineffective supply/demand system;
11. Rigid contract terms; and
12. Lack of vessel processors.

The following describes in more detail some of these barriers and some recommended solutions:

Barrier

Problems of quality: The quality of fish caught, processed and marketed from the West Coast has been criticized in various markets we have investigated. One alleged reason for this phenomena is the size of vessels. Smaller vessels will fish one, two or three day trips rather than nine or ten day trips.

Solution

(a) Improve transportation links between ports and major marketplaces in order to shorten turnaround time between catch and delivery.

(b) Investigate ways of improving storage facilities and techniques aboard large vessels to assure better quality.

(c) Evaluate ways of improving off-loading procedures to assure fish are handled in a manner to assure highest quality.

(d) Test various alternative catch and on-vessel handling techniques as far as effect on quality of delivered product. For example, European laws require bleeding of fish prior to landing to meet minimum federal quality standards for fish.

(e) Private association monitoring of quality controls or federal or state regulations could accomplish a, b, and c.

Barrier

Continuity of supply: Lack of continuity of supply of specific underutilized species has reduced possibility of processors entering the domestic frozen block market. Currently fishermen cease harvesting groundfish and other species when salmon and crab season begins.

Solution

(a) Commitment to and incentives by fishermen to focus on continuously supplying underutilized species is required to develop these species and supply a frozen block market in the United States (for U.S. fishermen/processor).

(b) Investigate opportunity for efforts such as a cooperative of processors that is committed to supplying new and expanding markets with consistent, quality species. The resource could be fresh to begin with and gradually work in underutilized species, Individually Quick Frozen and frozen block product. New markets contacted are receptive to this concept because it would provide a better guarantee of continuity. Processors have been receptive to the cooperative concept because the responsibility for meeting market demands is shared. Further, fluctuations in regional resource availability will not preclude market satisfaction. The concept would also stabilize prices during periods when availabiiity of resource did vary on the coast among processors.

Barrier

Consumer awareness in order to increase acceptance of product and growth in total consumption.

Solution

(a) Generic advertising sponsored by industry and/or in cooperation with the federal government. Such action would positively reinforce and impact organizations such as the North Atlantic Seafood Assoc. (NASA) a cooperative consisting of Canadian, Norwegian, Icelandic and Danish fish industries and governments which currently have employed a Cleveland advertising firm to market their foreign import in the United States.

(b) Educational programs in primary and secondary schools to educate future consumers.

(c) Industry-sponsored recipe demonstrations at retail stores.

(d) Nationally recognized Grading System for quality control by industry to bolster consumer confidence in quality of underutilized species.

(e) Final packaging of processed product by persons specially trained for this purpose—as opposed to relying on general purpose handling by persons primarily involved in packaging meat products.

Barrier

Lack of frozen block production/infant industry syndrome.

Solution

(a) Extension of Capital Construction Fund and Obligation Guarantee Programs to assist processors with capitalization of the equipment needed to compete with frozen block imports. The programs would assure availability of financing and stimulate processors to develop block capability. Proper administration of the program would assure Guarantees are limited to qualified applicants considering, for example, capability of success, efforts to locate financing (similar to SBA) and other financial criteria, as well as limiting Guarantees to applicants committed to developing underutilized species. All processors interviewed indicated they are waiting for the legislation being considered here to be enacted prior to initiating facility development. While they were confident they also recognize higher risks in entering production for underutilized species.

(b) Explore possible international mechanisms for encouraging relief from block and IQF imports. Without some mechanism to positively encourage shift from foreign to domestic supply--establishing these major new industry efforts will be set back many years.

(c) Application of the policies and procedures unique to agricultural development and recognition of the distinction between fishery-relevant industries and the maritime shipping industry. Lending institutions could become convinced of the similarities if loan and guarantee programs similar to the agricultural industry were extended to fisheries.

(d) Congressional "policy" statements in final enacted legislation concerning fishery development and recognition of an infant industry syndrome, could provide a key signal for industry and financial institutions to more actively support development of the industry.

(e) Look at other possibilities such as linking the fee for foreign efforts in our Fishery Conservation Zone to the volume of the same/similar product which the United States imports—i.e. higher imports, higher tax per ton of fish caught by foreign efforts.

Barrier

Ineffective supply/demand pricing system allegedly due to failure to pass on available cost savings in the distribution continuum to consumers. This phenomena maintains artificial competition with beef and poultry at the retail level.

Solution

(a) Verify costs of operation and distribution and increase awareness within industry and consumer levels of opportunities for cost savings/price reduction at the retail level.

(b) Establish national non-special interest industry association to monitor all aspects of the industy including costs and pricing.

(c) Review whether existing laws need to be amended to permit b.

Barrier

Rigid contract terms between harvestors and processors. Currently West Coast fish market associations negotiate prices between harvestors and processors at six month intervals.

Solution

A study to determine whether it is a significant problem and if so what alternatives exist including whether a more flexible formula could reflect the economics of a dynamic inventory and resource availability. Consumers are more likely to purchase fish during periods when the economy is depressed, regardless of the species, if the price is more competitive with other protein sources. During such periods the opportunity should be seized to attract these new markets with the expectation they may be retained during prosperous periods as well. In fact, Seagrant has reviewed the marketing alternatives in their 1980 report TAMU-SG-80-204. The marketing alternatives include:

(1) Organized exchanges;
(2) Forward contracting;
(3) Vertical integration and joint ventures;
(4) Bargaining associations;
(5) Market orders (requiring amendment to the Agricultural Marketing Act of 1937 to authorize market orders for seafood); and
(6) Federal market boards.

Barrier

Species regulations.

Solution

(a) Development efforts should continue to be required to be coordinated on at least a regional basis.

(b) Acceleration of the scientific programs determining the data base for regulations.

(c) Full utilization of the existing harvesting fleet to obtain the data base for development of accurate regulations. Development of reliable data reports from the fleet on both catch and capacity utilization.

Barrier

Lack of close vertical industries.

Solution

Look at possibility of non-special interest associations to be responsible for monitoring industry-wide phenomena such as regulations, cost-reflective pricing, generic advertising, market reliance, improved harvesting techniques and improved quality.

Barrier

Investment control issues within the west coast fish industry. Processors and harvestors interviewed to date perceive that the West Coast fish industry is dominated by foreign capital, ownership and market ties. Apparently foreign laws do not prohibit establishment of this high level influence by their industries. Such an approach by a domestic U.S. industry organization, however, would be difficult because of United States anti-trust laws. Accordingly, U.S. laws are ineffective to inhibit control of the industry by foreign members. In the case of black cod, crab, salmon and herring roe there were numerous comments that foreign interests developed reliance by domestic harvesting and processing members on the foreign markets. Prices paid by foreign markets for product were high enough to eliminate domestic competition for the product insuring foreign market reliance. Once the goal is achieved, market prices seem to fall from the higher prices paid during the early

phase of industry involvement. Domestic fleet and domestic processing facility capitalizations based on projected increasing product prices at the time of development, increases the number of failures when prices drop short after development. This deters other domestic interest in future investment.

Contra: Other sources disput the above hypothesis by declaring collapse of certain species markets was based upon poor quality of the domestic product and unrealistic investment evaluations.

Solution

(a) Disclosure requirements of foreign interests in the fishing industry. This would identify whether problems exist, as perceived.

(b) Limitations on foreign acquisition of interests in the domestic industry if it can be escertained that United States anti-trust policies are being circumvented by foreign interests.

(c) Relaxation of domestic laws to permit the domestic industry to compete against foreign interests on a similar basis.

(d) Investigation by agencies of foreign governments and the United States to verify degree to which quality influenced collapse of foreign markets, or to identify other important producer problems leading to failure.

(e) Requirement that a percentage of a foreign market be made available to United States exporters as a condition to receiving conservation zone permits.

Barrier

High price per unit philosophy.

Solution

Success of low-price-per-unit/high-volume fisheries must be identified, documented and made known generally in the industy.

Barrier

Lack of domestic vessel-processing capability. Insufficient guarantee fund for vessel obligation guarantee program and related training needs.

Solution

Increase the ceiling for government guarantees to reflect the values associated with development of domestic vessel-processing fleet and develop/utilize existing programs to achieve required job training.

Barrier

Reliable market information system.

Solution

Develop industry/government development of verifiable market information system. The system should reflect fleet capacity, resource availability (projected and existing), processing capability, quality, transport system dynamics, market requirements pricing, profits and foreign market requirements.

Time does not permit us to set forth in detail all of the particular efforts of the EDC/NOAA cooperative agreement. However, we would like to discuss some of the more important projects and their achievements.

1. *Fish Oil.*—A major impediment to development of all fisheries has been competition of import products, full utilization of underutilized species and inability to dispose of processing wastes. If each fish were fully utilized, product value would be enhanced beyond the 25% fillet values enabling better competition per pound with imported products. EDC, working in coordination with Puget Sound harvestors of dogfish and farmers in eastern Washington have tested successfully the use of fish oil as a substitute for dormant agricultural sprays currently manufactured utilizing petro-chemicals. After successful testing in the past two years we have achieved EPA registration of fish oils generically as pesticides. The 100% organic fish oil has added 10¢ per pound to the fishermen for the wastes, plus provides a less expensive spray for the farmer. The consistency of the fish oil mixed in specific proportions with water, is heavier consistency than the mineral water base petro-chemical sprays. Accordingly, less applications of the spray are needed during the critical dormant season to coat and suffocate the larvae of insects. Being more effective and less expensive increases profit margins which could eventually lower prices to consumers. Also doing a better job the yield in orchards has increased. The potential for use of fish oils as dormant sprays could displace 64 million gallons of foreign oil per year. In addition, the fish oil spray does not create problems with disposal of underlying grasses which cannot be utilized by farmers and instead using the fish oil creates a secondary cash crop. This unique symbiotic relationship between fisher-

ies and agriculture can be expanded in other agricultural areas on all coasts of the United States and with other species.

2. *Packaging.*—One important deficiency in the marketplace has been packaging concepts that are responsive to consumer needs. After investigating a variety of packaging concepts and reviewing the procedures under which existing packaging has been selected, EDC has worked successfully with marketing vacuum-sealed tray packs of frozen fillets of various underutilized species in the Denver market area. Denver was selected because of the diversity of the consumers from all three coasts and a rather high incidence of seafood consumption in the area. We worked specifically with a major market chain in that area who distributed the product directly. Consumer response was so successful that the vacuum-sealed tray packs have displaced imported products and competed directly with fresh products in quality. Meat managers reportedly "love the product and can't get enough of it." The reason is they find it easier to handle than the overwrapped fresh product and have had favorable comments and inquiries from their customers. In addition, because of the all-American constituency of the team, marketing has emphasized on the display pack that fact. The product has been placed in the supermarkets commissary on routine order basis and orders approximately 15,000–20,000 pounds per week of a variety of the underutilized species.

3. *Pacific cod.*—Pacific cod represents one of the more significant underutilized species in the United States. Due to the limited number of U.S. vessels harvesting this, continuity of supply has been a problem. Working with a major supermarket chain in the Seattle area, we introduced the fishermen to the buyer. They indicated this is the first time anyone ever came to them to ask how the supermarket wanted the product for their institutional pack. The vessels have been putting up three 15 pound boxes of fillets frozen and the supermarket needed four 10 pound boxes per carton. The inexpensive adjustments to processing aboard the vessel to conform to established warehousing equipment for handling has resulted in a request for 100% use of all products to be harvested by the test vessel.

We have also successfully placed Pacific cod in fast food chains previously using imported Icelandic cod at a lower price to both consumer and marketer. The quality has been equal to or exceeded previously imported cod and is the basis for the successful Ivar's chain developing in this region.

4. *Consumer and institutional awareness.*—Working with black cod harvestors and experienced chefs in the preparation of black cod, EDC assisted with organizing a Western Chefs conference and demonstration on the preparation of black cod and other underutilized species in Denver. Now on the menu of some of the finer restaurants in the mountain-state region, black cod is beginning to make a penetration into an area where it was never introduced before. Follow-up to the success of this team has been a review by a major international hotel located in Seattle that will test presentation on menus throughout the United States and their international facilities of black cod and other underutilized species.

5. *Transportation.*—The principal limitation to distribution of fresh fish has been distance. Working with industry members we successfully test marketed fresh fish utilizing control atmospheric containers which retard the deterioration of fresh fish thereby permitting it to be transported longer distances. Testing occurred in Florida, Europe, Hawaii, Los Angeles and Texas and the product was determined to be highly acceptable and among the freshest fish they had ever received from the Pacific coast. Modifying the atmosphere utilizing other passive systems could also enhance the ability to expand fresh landings and maintaining fresh landings until they can be distributed and/or further processed. This would limit the expense of costly cold-storage and other infrastructure facilities in remote areas.

6. *Lack of vessel processors.*—Through our industry review it has become apparent there are limited number of industry organizations capable and interested in expanding into the bottomfish industry through the construction of new $10 to $15 million dollar factory trawler-type vessels. Due to their reluctance to develop and the high interest rates adding to that reluctance we have confronted some of the major corporations in the United States to expose them to the opportunity in the fishing industry which the existing industry is unable to capitalize itself. To date we have identified four vessel projects and have assisted in coordinating their development which are in the capitalization stage. Many U.S. corporations that could infuse large sums of capital to develop the industry are still sitting back waiting to see some of the more pioneering efforts completed.

In addition to the specific industry integration efforts and team member efforts, we commissioned the design of a computerized seafood market information system which is available and on line ready for industry implementation by inputting the various data base. In addition to this tool, species reports, and specific cod reports

were completed and distributed to the industry and the international market place to better identify the types of species we do have in our region. Finally, a review of harvestor regulations was conducted and distributed to the industry for focusing on those regulations which have the most impact.

Overall, however, the two critical conclusions are with (1) quality concerns at every level of the industry. Due to small vessels with varying technologies and harvesting techniques, a uniform, high quality bottomfish have not been provided to domestic markets. No domestic quality standards exists either through legislation or industry initiative other than on a company-by-company basis. Imports, however, are required by foreign landing nations in certain regions, to be bled on board when harvested and prior to landing to improve color, taste, texture and firmness of the fisheries. (2) Continuity of supply to domestic industry focusing on development of traditional species which are severely regulated, seasonal, and foreign market sensitive, have resulted in the consumer emphasis on these expensive seafood products. Consumers have demonstrated an increased consumption of more moderately priced varieties of bottomfish. For market confidence to develop in a U.S. capability, continuity of supply is essential. Bottom fish are available year-round but require commitment from industry members to support market demands. To date the existing industry has failed to provide the supply confidence.

EDC has worked on these and other projects throughout the past 2½ years on minimal funding and maximum industry effort and acted as the catalyst to the system. Without access to S–K funds and the direct assistance of John Wedin, Regional Fisheries Development Officer and the network of NOAA and NMFS personnel, this project could not have achieved the results it has. We would encourage continued funding at increased levels to continue the stimulation of the industry which is necessary on the national scale of the S–K approach.

STATEMENT OF DR. WALTER T. PEREYRA, VICE PRESIDENT AND GENERAL MANAGER OF MARINE RESOURCES CO.

Mr. Chairman and Senators, my name is Dr. Walter T. Pereyra, Vice President and General Manager of Marine Resources Company, Seattle, Washington. Marine Resources Company, which was incorporated in the State of Washington in July, 1976, is engaged in the business of conducting joint venture fishing operations between Soviet processing vessels and domestic fishermen. Our main office is in Seattle and we have a branch office in Nakhodka, U.S.S.R. in the Soviet Far East.

I appreciate having the opportunity to address your Committee on the question of underutilized species development. Since Marine Resources Company is dedicated to the development of domestic fisheries on underutilized species, we feel we can offer some insights to the various issues surrounding this important subject.

We began our joint fishing activities in 1978 off the Oregon coast on Pacific whiting, with 2 American midwater trawlers and 2 Soviet processing vessels. In that first year we operated for a month and a half and took some 2 million pounds. From that small beginning our activities have expanded in area and volume to where last year we operated for 10 months of the year from California to the Bering Sea on all the major stocks of non-traditional species, i.e. Pacific whiting, Alaskan pollock, yellowfin sole, Atka mackeral, and Pacific cod. We worked with some 30 U.S. trawlers and 14 Soviet processing vessels, receiving about 178 million pounds of fish.

Marine Resources Company has now become the largest processor of domestically caught bottomfish. Last year our sales volume was in excess of 20 million dollars. Almost 100 percent of our products were exported to over 15 countries. I believe it is fair to say that we are making a meaningful contribution to alleviating the substantial balance of trade deficit which the U.S. has in fishery products.

The reason we have been successful is that we have been able to put together a joint venture fishing operation involving foreign processing vessels and American fishermen that enable us to competitively market products from non-traditional resources in the international market. By being able to provide American fishermen with a large volume market at the location where fishing takes place, they have been able to sell us the fish at a price which enables us to be competitive. Also by processing certain fragile species such as Pacific whiting and pollock immediately at sea, we have been able to provide products to our buyers with a high degree of freshness and a continuous supply. The three elements of price, quality, and consistency of supply have been important to our success. I refer you to the attached article from the Journal of Contemporary Business, which describes our company and our business activities in greater detail.

Our initial success plus the establishment of the so-called "fish and chips policy" and enabling legislation has greatly expanded joint ventures or over-the-side sales operations in the North Pacific. We now have Korea, Japan, West Germany, Bulgaria, Greece, and Poland involved in over-the-side sales. Last year these joint venture operations accounted for about 300 million pounds of non-traditional fish along the entire coast. This catch represents a significant increase in the domestic bottomfish harvest. With the rapid expansion of the West Coast trawl fleet and the formation of new processing operations and expansion of those already in existence, the replacement of foreign harvesting and hopefully processing operations with domestic operations is an achievable objective in the not-too-distant future.

Some will argue that not enough is being done and that development isn't rapid enough. This concern appears to be a result of the substantial decline in the North Pacific shrimp and crab resources with concomitant loss of important additional markets, rather than a lack of progress in the area of domestic development of underutilized resources. If one looks at the enormous expansion of joint venture harvest (in the four year period from 1977 to 1981 catches have grown from nothing to over 300 million pounds), the growth of the Alaskan salt cod fleet and processing, the robust Pacific coast brown rockfish market and harvest, shipyard conversion work, net construction, electronic sales, and so on, you have to admit that things are happening, and happening fast in the bottomfish field. This is the type of development which was envisioned when the MFCMA was passed.

Over the past several years the following important legislative and administrative actions have been taken which establish a good foundation for long term development of a strong and competitive U.S. groundfish industry: The "Joint Venture or Processor Preference Amendment" to the MFCMA which established the three-tiered resource allocation sheme: the American Fisheries Promotion Act; the "Fish and Chips" policy; NMFS export market promotion programs; and the establishment of regional fisheries development foundations.

We appreciate the efforts of Congress and the Executive in taking these initiatives and supporting the expansion of the domestic bottomfish industry. What we need to do now is to vigorously apply and defend these measures for the maximum benefit of the U.S. industry. This will go a long ways towards achieving one of the stated purposes of the MFCMA, "to encourage the development by the United States fishing industry of fisheries which are currently underutilized or not utilized by United States fishermen, including bottomfish off Alaska".

The domestic bottomfish industry will only expand so long as the products resulting from this involvement are competitive in the international marketplace, including the U.S. market. As opposed to King crab and other high valued species, North Pacific bottomfish products must compete with a wide range of high quality, moderately priced, non-domestic bottomfish products, of which some 80 percent are produced from bottomfish stocks outside of the U.S. 200-mile fisheries zone; and alternative protein sources, such as chicken, pork, and beef. In this connection we must strongly resist the temptation to impose non-conservation regulations such as limited entry, time-area closures, gear restrictions, and prohibited species measures, which are intended to reduce the competitive advantage of one sector of our industry over another. This approach will only institutionalize inefficiency and prevent the domestic fishing industry from evolving into a highly efficient, competitive, and strong segment of our national economy.

There are no "quick fixes" or magic formulas which will by themselves ensure expanded, long-term growth of the domestic bottomfish industry. For example, recently there has been a suggestion that temporary relaxation of the Jones Act prohibition to enable foreign-built vessels to be enrolled as domestic fishing (harvesting) vessels would provide a positive stimulus for the U.S. bottomfish industry. On closer examination, though, it can be shown that such a temporary measure could, in fact, negatively influence our long-term growth, and in the interim could prevent the adoption of more realistic long-term investment strategies by the industry.

This change in the law, even though it might be temporary, would be unfair to the existing U.S. flag fishing fleet which was built in U.S. shipyards as mandated by the Jones Act. Moreover these new U.S. flag, foreign-built entrants into the bottomfish industry could preempt certain market opportunities for U.S. flag fishing boats and thus slow or eliminate the enthusiasm to build additional U.S.-flag fishing vessels. This would negatively impact U.S. shipyards.

The proponents of this scheme argue that this temporary relaxation is needed in order for U.S. flag catcher/processors to be competitive with existing foreign fleet. They point out that this situation exists due to the high initial cost and debt service of building a vessel in a U.S. shipyard, and therefore that the only way to compete with foreign catcher/processors is to acquire a used foreign catcher/processor and put it under a U.S. flag.

This is all well and good for the operators who get permission to temporarily circumvent the Jones Act, but what happens when these used U.S. flag, foreign-built catcher/processors need to be replaced? The basic cost differential of building a replacement vessel in a U.S. shipyard will most likely not have changed vis-a-vis the same vessel in a foreign yard. Consequently, vessel acquisition cost, which is the factor which prevents a U.S.-built catcher/processor from being competitive in today's marketplace, will most likely remain relatively high and continue to prevent a U.S.-built catcher/processor from being competitive in tomorrow's marketplace.

All this scheme really would do is provide a de facto, temporary subsidy to those companies or individuals who are lucky enough to acquire a foreign catcher/processor during the "open season". This temporary "quick fix" would not contribute to the long-term growth of the domestic bottomfish industry. Other measures described below would in my estimation be more positive for our industry.

Long-term policy for underutilized species development by the domestic industry

The rapid success that our company has experienced in the area of underutilized species development confirms the point that in our economic system all that is needed for the U.S. fishing industry to expand its participation in the fisheries for underutilized species are economic markets and free access to those markets. The long-term value of government assistance programs should be judged against this standard.

In this regard, I feel that legislative and administrative support from our government can be of greatest value to the long-term expansion of the domestic industry on bottomfish and other underutilized species by establishing laws and regulations that reduce investment risk through the promotion and reward of efficiency within the private sector, operating within a competitive marketplace, rather than having government trying to create the marketplace itself. Much of the industry assistance work done in the past, while well-intended, did not result in long-term development simply because the private sector did not perceive that the investment risk warranted participation. Government fishery programs and legislative initiatives must be reviewed more critically if they are to be of real value to our industry. We must be really careful not to get fooled into believing that certain Band-Aid approaches are going to cure the patient.

Recommendations for further action to expand the U.S. bottomfish industry

Based on our experiences and recent successes in expanding U.S. participation in the underutilized species, I would like to offer several recommendations for consideration.

1. The "fish and chips policy" should be more vigorously pursued with "fish" allocated on the basis of maximum benefit of "chips" to the development of the domestic fishing industry.

The mechanism for assessing the "chips" hasn't been formally established and needs to be for the benefit of all participants. Consequently the fish and chips policy is now only loosely applied with little attention given to the relative contribution of various chips offered up by the foreigners to the development of the domestic industry.

For example, one ton of underutilized fish sold over-the-side to a foreign cash buyer on the high seas does not make as great a contribution to the U.S. industry as does one ton of fish sold over-the-side to a domestic corporation, which then processes this fish on a foreign processing vessel and markets the resulting products in the world market. In this case the value added by the foreign labor accrues to the U.S. corporation. This latter operation should be rewarded with more fish (TALFF) to the foreign shipowner than the former by virtue of the fact that it makes a greater contribution both economically and development-wise to the U.S. fishing industry.

Additionally, by so weighting the value of chips, we will be moving development in the direction of greater U.S. control of a strategic protein resource. Such a development would seem to be consistent with the intent of Congress when the MFCMA was amended and the three-tiered allocation scheme was established.

2. Increased emphasis should be given to the expansion of foreign market access to U.S. fish products by lowering trade barriers, government sponsored market promotion efforts, and "fish and chips" considerations.

Although MRC now markets products produced from the U.S. harvest of underutilized in over 15 countries throughout the world, our marketing efforts have been frustrated by tariff and non-tariff barriers in certain countries. For example, U.S. cod products going into the EEC are subject to a 15 percent tariff on the full entry value of the product. In South Korea, U.S. origin fish is only allowed to enter the

country if it will be reprocessed and exported. Even if the value of the entering U.S. fish would be greater on the Korean domestic market, it is prohibited from entering. Numerous examples can be cited for other countries.

Considering that foreign fish products entering the United States are almost duty free, trade barriers erected by other countries double the problem of the U.S. fishing industry—we are asked to compete with foreign products on our domestic markets, while some of our competitors are insulated from our products on their markets by virtue of trade barriers. This situation is not only unfair but it slows down or prevents the development of our domestic fishing industry.

Another potential complication is the proposal to eliminate or reduce NMFS market promotion activities. In the past few years the NMFS has recognized the importance of export market penetration of the overall development of the U.S. industry. NMFS sponsored overseas trade missions and U.S. participation in trade shows has been expanded. Our experience with these efforts has been beneficial, and thus we would give them high marks.

Rather than cutting back such market promotion efforts as is now being considered within NOAA, they should be broadened in content and expanded geographically and in frequency. If NOAA feels that these marketing activities are incompatible with their mission, then a viable alternative might be to move the NMFS marketing activities over to the Department of Agriculture where, hopefully, they would be nurtured and given proper emphasis.

Although the stated intent of the fish and chips policy is quite broad, it is usually considered within the context of joint venture fishing operations. One could argue that the application of the fish and chips policy has been uneven, particularly with regards to the Soviet Union, but on the balance the emphasis has been laudible. Nevertheless, recognizing that direct overseas sales of U.S. products will probably result in the highest U.S. chip value, foreign purchase of U.S. products manufactured from underutilized species should be given increased consideration.

Thank you for this opportunity to express my views on this important subject of underutilized species development. I am confident that so long as patient minds prevail and competitive opportunities are offered, our domestic fishing industry will prosper and grow. In this regard, continued legislative and administrative support will be necessary to ensure that the United States in fact will realize the full benefit from the underutilized fishery resources in our 200-mile zone.

Attachment.

Reprinted from
JOURNAL OF CONTEMPORARY BUSINESS VOL. 10, NO. 1
Graduate School of Business Administration, University of Washington, Seattle, WA 98195

Some Preliminary Results Of A U.S.-Soviet Joint Fishing Venture

A Seattle company is the nation's largest buyer of bottom fish through a joint agreement with a Soviet fishing enterprise.

Walter T. Pereyra
Marine Resources Co., Seattle

The extension of fisheries jurisdiction by the United States to 200 miles in 1976 set the stage for radical changes in traditional fishing patterns off our shores. One of these changes was the emergence of a new harvesting/processing arrangement known as an over-the-side-sales or joint venture fishing in which United States fishermen catch and deliver fish on the fishing grounds to foreign processing vessels. Although such "joint venture" arrangements are new to the United States, they have been carried out widely off other countries for years (Kaczynski and LeVieil, 1980).

The first nation to become involved in such a joint venture scheme in United States waters was the Soviet Union. They choose to effect such an arrangement through the auspices of a jointly-owned United States corporation, U.S.-USSR Marine Resources Company.

In this paper I will describe the structure and operation of our joint U.S.-Soviet fishing company and in particular the way in which our joint fishing arrangements are organized and implemented. Some attention will also be given to the negative impact on our joint fishing activities due to certain administration directives or industry initiatives which by design can severely impact our joint fishing arrangements.

U.S.-USSR Marine Resources Company

The U.S.-USSR Marine Resources Company, which does business as Marine Resources Company (MRC) was incorporated in Washington in July, 1976. We are a 50-50 equity joint venture between Bellingham Cold Storage of Bellingham, Washington and Sovrybflot, a fishing enterprise of the Soviet Ministry of Fisheries located in Moscow. Our main office is in Seattle. We also have a branch office in Nakhodka, USSR, in the Soviet Far East. Our Nakhodka office represents the only commercial office permanently maintained by a Western corporation in the Soviet Far East and as such is a significant breakthrough in its own right. We have one Soviet citizen permanently residing in Seattle in exchange for which we have been allowed to place an American permanently in our Nakhodka office.

To the best of our knowledge, we are the only joint venture in the United States with equity participation by a Soviet enterprise. Being a joint American-Soviet company, our business activities are largely confined to business and trading activities between our two countries and in particular the fishing industry involving the Soviet Far East, the North Pacific and Bering Sea, and the Pacific Northwest and Alaska—the Seattle-Nakhodka connection becomes obvious. In a sense it could be said that we are dedicated to expanding trade and business between the Soviet Far East and the Pacific Northwest and Alaska as a means of building bridges of economic dependency between our two countries.

Last year our business volume was around $15 million and involved, among other things, resupply of the Soviet fishing fleet with perishables, joint venture fishing arrangements with American fishermen for under-utilized species, and the brokering of Soviet fish products on the world market. This year we are projecting that our total sales should increase to around $20 million. As will be discussed below, in terms of volume we are now the largest buyer of United States-caught bottomfish in the country.

As our level of business volume has expanded, so have our areas of business activity. For example, we are presently exploring the possibility of designing, financing, constructing and operating a cold storage facility in Nakhodka. We also would like to expand our product base into such commodities as wood chips, logs, coal and other resources in the Soviet Far East. In the Seattle area we have been exploring the possibility of repairing Soviet ships in an effort to develop some much-needed new shipyard business for the area. Recently we formed a subsidiary company, Troika Travel Company, to organize specialized counterpart tours of the Soviet Union for American businessmen.

"Joint Venture" Fishing Arrangements

Of the various business activities in which we are presently involved, the so-called "joint venture" fishing arrangements constitute the business backbone of our company. For this reason I will describe in greater detail how they operate and give you some idea of their importance to the development of United States fisheries on non-traditional resources within our 200-mile fishing zone. These resources include species such as Pacific whiting (hake) and pollock which must be caught in large volumes, sold at moderate prices and processed rapidly if they are to be competitive in the international market.

The Soviet Union is the second largest fishing nation in the world (Japan is first) with landings of around nine million metric tons (MT) annually. More importantly, though, from the standpoint of developing joint venture fishing arrangements with United States fishermen, the Soviet Union has by far the largest fleet of large motherships and fish factory vessels in the world. This fact is clearly underscored in a companion article in this volume by Kaczynski (1981) where he shows that considering the world fleet of factory-ships greater than 6000 GRT, some 85 percent fly the Soviet flag.

Besides having a large fleet of factory-ships, the Soviet Union is a natural partner for joint fishing ventures with American fishermen because these fleets are based at ports in the Soviet Far East, Sakhalin and Kamchatka that are relatively close to the North Pacific and Bering Sea. This means that processing ships can be brought on-line expeditiously and processing capacity varied with the seasonal requirements of the United States fishermen. Other nations, with the possible exception of Japan and Korea, do not have this flexibility. You must keep in mind that in the Pacific Northwest and Alaska the majority of our fishing vessels are combination boats which move from fishery to fishery depending upon their relative strengths. For this reason, if new ventures on non-traditional species are going to be successful, they must be organized and prosecuted with flexibility in an environment of uncertainty.

Organizational Aspects

The manner in which our joint ventures are organized is actually quite simple. Our company leases certain Soviet factory-ships to process fish to our specifications. We then contract with American fishermen to deliver individual catches of fish by means of a detachable bag (codend) to these factory-ships. (See Fisher 1980 for details of our catch delivery methods.) We have representatives on-board the factory-ships who coordinate fish deliveries, account for the quantities and kinds of fish delivered, and make certain that the finished products meet our

specifications. Our company then markets the finished products in the international market.

The important point to keep in mind is that we are not a brokering agent to arrange the transfer of fish to the Soviet Union as is sometimes mistakenly assumed. We, of course, are more than willing to sell or barter our fish to the Soviets if they can be competitive on the international market. Interestingly, due to the way in which we operate, the value added from Soviet labor accrues to the United States through our U.S. corporation.

Our actual joint venture fishing arrangements began in 1978 off the Oregon coast when two Oregon midwater trawlers, *The Lady of Good Voyage* and *Last Straw*, delivered Pacific whiting (hake) during September and October to two Soviet freezer-trawlers. Although the deliveries in this experimental venture were not great (less than 1000 metric tons), we did prove that American fishermen could economically catch and deliver large volumes of Pacific whiting and that our company could successfully sell the finished products in international markets.

Based on our initial success, we expanded the joint venture whiting fishery in 1979 to include 11 U.S. trawlers and up to six processing vessels with the operation running from June to October. Our catch target was 30,000 MT but due to an unusual oceanographic regime that existed along the coast (warm water and little up-welling); certain area restrictions on the joint operation (no deliveries allowed inside nine miles nor north of 47° 30′ N); and the fact that most of the trawlers experienced "birth pangs" in this new midwater trawl fishery, the catch was only about 9,000 MT. Nevertheless, the significance of this effort becomes apparent when one realizes that in our second year of operation we purchased about 85 percent of the Pacific whiting delivered by American fishermen along the coast that year.

Last year we expanded further and had 16 United States catchers delivering to seven Soviet processing vessels. With a more normal fishing environment and stable export markets, we took about 27,000 MT. Moreover, since it was recognized that some of the area restrictions imposed on our operations in 1979 were not based on a conservation need and did in fact severely impact this developing domestic fishery, permit conditions were finally promulgated last year that facilitated deliveries by American fishermen, rather than impeding them.

A Gulf of Alaska Fishery

Besides the whiting fishery, in 1979 we initiated an experimental fishery in the Gulf of Alaska on a variety of under-utilized groundfish species. One American trawler, *California Horizon*, operated with a Soviet

freezer-trawler for about 50 days. Pollock was the principal species taken but we were unable to economically market it due primarily to import restrictions in Korea and Japan, coupled with the type of processing facilities we had available. Consequently we terminated the operation prematurely.

In 1980 we leased different classes of processing vessels including the 18,000 ton mothership *Sulak* which has fillet processing facilities and shifted our operation to the Bering Sea and Aleutian Island area. We started up in mid-January with seven large American trawlers including the 160-foot *American No. 1*. Our principal target species was Pacific cod. As in the Gulf, pollock was the dominant species taken in the Bering Sea when the fishery terminated in late May. Total deliveries of all species was about 11,300 MT. which represents about a tenfold increase over the total United States groundfish landings for the Bering Sea/Aleutian Island region in 1979.

In 1980 we initiated a fishery for yellowfin sole in the Central Bering Sea from June–September. We used three processing vessels and five medium-sized American trawlers. This fishery which was the first American fishery on the large Bering Sea yellowfin sole resource (total allowable catch of about 120,000 MT), had a catch target of 7,500 MT. Due to the excellent performance of the U.S. trawlers, though, we had taken 13,150 MT by the time the fishery wound down in late September. If we had had "reserve processors," as will be described later, total deliveries would have been closer to 16,000 MT. Fisher (1980) provides a complete discussion of this exploratory fishing venture.

To summarize our joint venture fishery arrangements last year, we contracted with 27 United States trawlers, ranging in size from 60 to 160 feet and valued at between $450,000 and $7,500,000 each for a combined value of about $35 million. These trawlers delivered to 14 different Soviet processing vessels ranging in length from 270 to 573 feet, with an estimated value of $116 million. Total deliveries were around 51,500 MT with an average ex-vessel value of about $120 per MT or $6.2 million. In terms of relative volume last year, our company accounted for a two-thirds increase in total groundfish deliveries by U.S. fishermen on the West Coast over the preceding year.

Some Benefits to the U.S. Fishing Industry From Joint Venture Arrangements

One of the principal benefits of our joint venture fisheries to the harvesting and processing sectors of the U.S. fishing industry has been the learning of new skills, the transfer of technology and the demonstration of what can be done with under-utilized species. For example, Soviet trawl skippers and master fishermen have freely given of their time and

skills when requested by the American fishermen. We have had United States processors aboard our leased Soviet processing vessels to witness first-hand how our fish are processed for the international market. We have demonstrated that our fishermen can catch and deliver large volumes of non-traditional species and that these species can be successfully processed and marketed by a U.S. corporation.

In effect, through our joint venture arrangements involving leased Soviet processing vessels teamed up with American fishermen, we have considerably reduced the uncertainties and risk associated with the sea-based processing mode of handling under-utilized resources. We are doing something more than just talking about developing U.S. fisheries on under-utilized species. We are successfully catching, processing and marketing them. We and the American fishermen working for us have demonstrated conclusively that all that is required for the fishing industry to take advantage of the opportunities Congress envisioned when they enacted the Magnuson Fishery Conservation and Management Act(MFCMA) of 1976 is a *viable economic market.*

It should be noted that this development activity has been done entirely within the private sector *at no cost to the U.S. taxpayer.* If you tried to duplicate our experiences through one of the Fisheries Development Foundations, you would find that the costs would run into the tens of millions of dollars.

Besides the obvious direct benefits, it should be kept in mind that other related industries benefit substantially from the joint venture fisheries, particularly since species such as Pacific whiting and pollock are harvested by a fishing method new to the Pacific Northwest—midwater trawling. Shipyards have been busy converting vessels and even building some new ones while equipment manufacturers have had to supply new winches, electronics, nets and other related fishing equipment.

Another benefit which is now being realized from our joint venture is the fact that other nations fishing in the North Pacific have had to change their attitudes about participating with the U.S. industry in the utilization of non-traditional resources. This is in part due to the recent establishment of a U.S. "fish and chips" policy whereby our government will reward those nations helping to develop the U.S. fishing industry by allocations of surplus resources. We now see joint ventures involving Japan, Korea, Poland, Bulgaria, Greece and West Germany in part due to this policy and our successes.

The MFCMA and its recent amendments established a three-tiered allocation system with U.S.-caught and processed fish having the highest priority, U.S.-caught and foreign processed next priority, and foreign-

caught and processed lowest priority. Clearly, as domestic harvests go up, foreign quotas are going to drop. It is now apparent that Japan with some 70 percent of the foreign quotas in the Gulf of Alaska and Bering Sea, plus major control of the seafood processing industry in Alaska, is aware that the joint fishing ventures are capable of drastically reducing their dominant position in the North Pacific. In effect, our company is a viable competitive alternative to the Japanese dominance of the North Pacific fisheries.

Obviously, as can be seen, the joint ventures we have arranged involving American fishermen delivering under-utilized species to Soviet processors are significant and important in the overall development of our domestic fisheries, particularly on the West Coast. In this regard, they are totally consistent with one of the stated purposes of the MFCMA, for example, "To encourage the development by the United States fishing industry of fisheries which are currently underutilized or not utilized by United States fishermen, including bottomfish off Alaska." The benefits to be derived to the United States are substantial and long-lasting.

The Impact of the Withdrawal of Soviet Quota On Fishermen Participating in Joint Ventures

One of the Carter Administration's responses to the Soviet-Afghanistan situation was the withdrawal of fish allocations that had been earmarked for the Soviet Union in 1980. Considering that these quota withdrawals represented less than five percent of the Soviets' annual fish catch, the withholding of quotas probably had a limited impact on them.

On the other hand, withholding the Soviet quotas has had a negative impact on our company and the U.S. fishermen who operate with us in our joint venture fisheries. In the past when the Soviets had a directed fishery operating in the same general area as our joint fishery, we had considerable flexibility in the amount of processing and carrier capacity we could have "on-line" at any one time. For example, when the American fishermen were having good catching success, we could bring on extra processors. On the other hand, when fishing was slow, we could release processors to fish on the Soviet quota.

With the elimination of the Soviet quota, this flexibility was gone. Consequently, we have been forced to operate with a fixed processing capacity and no "reserve processors." Thus, when fishing is slow, we have unused capacity that we have to cover. Conversely, when fishing is good, we have to put the fishermen on limits. In either case it increases costs, lowers productivity in the fishery, and in general

Table 1
Unrealized Deliveries Due to Lack
Of Reserve Processing Ships on Fishing Grounds

	FISHERY (Target species)			
	Pollock	Yellowfin Sole	Pacific Whiting	Total
Fishing Area	Bering Sea	Bering Sea	Pacific Coast	
Time Period	Jan-May	June-Sept.	May-Sept.	
Max. No. Primary Processors Used	4	3	7	14
No. Reserve Processors Needed	1	1	2	4
No. Processor-Days Short in Fishery	45 days	70 days	107 days	222 days
Avg. Expected Deliveries Per Processor Day	50 MT	45 MT	50 MT	
Total Quantity of Unrealized Deliveries	2,250 MT	3,150 MT	5,350 MT	10,750 MT
As % of Total Deliveries	20%	24%	22.5%	22.3%
Avg. Value/MT	$100	$130	$120	
Lost Revenue to Fishermen	$225,000	$409,500	$642,000	$1,276,500

makes it more difficult for our company and the United States fishermen to compete in the international market.

For each of the three joint fisheries we operated last year we have made an accounting of the estimated unrealized deliveries and their value as a consequence of our inability to maintain "reserve processors" on the fishing grounds.

From the above analysis it would appear that the U.S. fishermen operating in our joint fisheries last year were deprived of about $1.25 million or 20 percent in earnings due to our inability to maintain reserve processors on the grounds. Our inability to bring extra processing capacity on-line commensurate with the U.S. fishermen's level of fish deliveries was due in turn to the lack of any available quota in these areas on which the processors (freezer-trawlers) could fish during periods of reduced production by the American fishermen. It would have been prohibitively expensive for us to have "reserve processors" lying idle while they waited for the periodic surges in domestic production.

The Solution: Special Quota for Processors

The solution to this dilemma is to allocate sufficient Soviet quota in each fishery so that we can keep enough "reserve processors" on the grounds to match our on-line processing capacity with the actual production by the U.S. trawlers. Obviously the amount of quota required will vary by fishery, depending upon the size of the fishery, variability in fish availability, weather patterns and other factors. Based on our experience to date, though, and the data presented in Table 1, it would appear that an allocation of 20 percent of the projected deliveries by U.S. fishermen should be sufficient to allow us to maintain adequate processing capacity on the grounds.

In 1981 we have made plans to purchase about 86,000 metric tons of bottomfish from fishermen, making us the largest buyer of American-caught bottomfish in the country. If we use the above 20 percent quota criteria, then it appears we would need about 17,200 tons of various species to support enough "reserve processing capacity" to permit the American fishermen to maximize their deliveries.

Table 2
1981 Expected Deliveries and Quota Needs
By Fishery and Species

	Expected Deliveries by U.S. fishermen	20% of Processor TALFF Requirement
Washington, Oregon California		
Pacific Whiting	40,000 MT	8,000 MT
Incidental Species	as allowed	as allowed
Subtotal	40,000 MT	8,000 MT
Bering Sea Spring Pollock Fishery		
Pollock	12,000	2,400
Other Species	4,000	800
Subtotal	16,000	3,200
Yellowfin Sole Fishery		
Yellowfin Sole	20,000	4,000
Cod	6,000	1,200
Other Species	4,000	800
Subtotal	30,000	6,000
Total	86,000 MT	17,200 MT

Potential Losses to American Fishermen

Prior to the MFCMA, the U.S. fishery conservation zone extended to 12 miles from shore. Off the Pacific coast states no foreign fishing was allowed inside this 12 miles fishery zone.

With the passage of the MFCMA this 12-mile zone was replaced with a 200-mile fishery conservation zone. Although the 12-mile limit line was eliminated, foreign fishing was still not allowed inside 12 miles. Harvesting by United States flag vessels was not affected by this measure.

When our joint venture fishing activities began on Pacific whiting, attempts were made by certain hostile factions within the processing sector of the fishing industry to also prevent the foreign processors from coming inside 12 miles to accept catches from American fishermen. It was argued that these processors would cause crowding on the

inside grounds, create "visibility" problems from shore and represented unfair competition to shoreside domestic processors. By and large these allegations were emotional in nature and had no basis in fact.

On the other hand, forcing the U.S. fishermen to tow bags (codends) of whiting which were caught inside 12 miles out to the processors, would have an adverse impact on the fishermen by substantially reducing their earnings. This earnings reduction would be due to the added fuel costs of towing codends of fish out to the processors and returning to the grounds, lost fishing time and reduced fish quality (increased percentage of fish going into lower valued fish meal production). This last factor is a consequence of the necessity to process and freeze Pacific whiting within four hours of capture to be assured of a high quality product.

An estimation of the lost revenues to be expected from the imposition of a 12-mile fishing limit on our foreign processors is detailed in Table 3. This table was generated based on the following assumptions:

- Trawler tows codends at 4 knots and has running speed of 10 knots,
- fuel consumption of 25 gallons an hour
- fuel cost of $1.10/gal and
- 56% of catches made inside 12 miles at average distance of 8.7 miles from shore.

In addition it is assumed that:

- Average number of hauls/day = 2 hauls,
- average catch size of 12 MT,
- trawler requires ½ hour to return to grounds and find fish when working inside 12 miles.

Finally,

- 12 percent more fish going to meal when operating with 12-mile limit (25 percent versus 13 percent),
- ex-vessel price of food grade whiting $132/MT and meal grade whiting $33/MT which yields an average per ton value of $107.25 with a 12-mile limit and $119.13 without 12-mile limit,
- average fishing day of 16 hours.[1]

The earnings reduction from a 12-mile limit restriction would probably amount to about 20 percent of the gross revenues. Although one might

Table 3
Expected Losses to U.S. Fishermen if Joint Venture Processors Prevented From Receiving Pacific Whiting Within 12 Miles of Shore

	Size of JV Fishery (MT)			
	25,000	50,000	100,000	150,000
A. Expected Gross Revenues with No 12-Mile Limit	Gross Revenues (1000's dollars)			
Expected gross revenues	2,978.	5,957.	11,913.	17,870.
B. Losses with 12-Mile Limit	Losses (1000's dollars)			
Reduction in Fish Quality (loss to fish meal) Quantity × 0.12 × ($132. − $33.)	297.	594.	1,188.	1,782.
Loss from Reduced Fishing Time Added time for average haul resulting from towing codend and returning to fishing area = 0.56 × 1.325 hrs = 0.74 hr. Percent loss of fishing time in 14-hr. fishing day = 1.48/14 = 10.6% Lost earnings = quantity × 0.106 × $107.25	284.	568.	1,137.	1,705.
Added Fuel Costs No. of hauls = quantity/12 MT Added fuel cost = no. hauls × 0.74 hrs. × 25 gal/hr × $1.10	42.	85.	170.	254.
TOTAL LOSSES ($1000's)	623.	1,247.	2,495.	3,741.
PERCENT LOSS	20.9%			

have expected higher fuel costs to be the major contributing factor, it is obvious that the losses in fishing time and reduced product quality are far more significant.

After considerable debate over a several-year period, regulations have now been promulgated which allow our leased-processors to come within six miles of shore to receive catches from fishermen. This "compromise" has permitted our joint fleets to operate with a reasonable level of operating efficiency and has substantially reduced losses associated with towing codends out to the processors.

CONCLUSION

Our joint venture business and fishing relationship with the Soviet Union has been a positive and rewarding experience, and has contributed greatly to the development of the U.S. fishing industry. By joining the extensive at-sea processing capacity of the Soviet Union, the harvesting capabilities of the American fishermen and the marketing resources of a U.S. company, we have managed single-handedly to increase the domestic harvest of Pacific coast groundfish by two-thirds. As a result, Marine Resources Company is now the largest U.S. buyer of domestically-caught bottomfish. Moreover, because of the economics-of-scale involved and efficiencies of our high-volume operation, we have become competitive on the international market and are helping to reduce our balance of payments deficit in fishery trade.

On the negative side, our joint fishing venture and the American fishermen involved with us this year were significantly impacted by the withdrawal of Soviet fish quotas last January. This impact must be properly weighed when evaluating the Administration's response to the Soviet-Afghanistan situation. On the balance we believe the benefits to be derived by the U.S. fishermen from a small quota to support our joint venture processors far outweigh any perceived cost in terms of U.S. posture with regard to the Soviet Union. For this reason we feel a quota for the joint venture processors of 20 percent of the expected U.S. deliveries is reasonable and justifiable.

Looking at the whole question of support for our joint fishing activities in its broadest sense, our joint fishing operations are one of the few bright spots in U.S.-Soviet relations today. Rather than pursuing a course which hinders our highly successful joint Soviet-American fishing venture, one in which the benefits appear to be more on the side of the United States than the Soviet Union, the Administration should be trying to find ways to protect and strengthen this important binational business venture. In fact, after experiencing the spirit of cooperation and understanding, which has grown between American and Soviet fishermen, we strongly recommend that our joint fishing scheme be

looked on as a model of change for improving U.S.-Soviet relations in the future.

FOOTNOTE

[1] From draft of master's thesis at University of Alaska by Margaret Dawson, entitled "Operational Aspects of 1980 Hake Joint Venture."

REFERENCES

Captain Barry Fisher, "The Joint Venture Fishery for Yellowfin Sole; the Bering Sea. Summer 1980; A Case Study in Fishery Development," Alaska Fishery Development Foundation, November 1980.

Vladimir Kaczynski, "Factory Motherships and Fish Carriers," Journal of Contemporary Business, Vol. 10, No. 1, pp. 59.

○